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OFFICE

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SUBCOMMITTEE ON SENATE BILLS 385, 399, AND 3146.

HENRY W. KEYES, New Hampshire, *Chairman.*

PETER NORBECK, South Dakota.
ELLISON D. SMITH, South Carolina.

EDGAR C. WRIGHT, *Clerk Subcommittee.*

TO AMEND SECTION 5 OF THE COTTON FUTURES ACT AND TO PREVENT THE SALE OF COTTON AND GRAIN IN FUTURE MARKETS.

FRIDAY, JANUARY 20, 1922.

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 o'clock a. m. in the Senate Office Building, Senator Henry W. Keyes presiding.

Present: Senators Keyes (chairman) and Smith.

The committee proceeded to consider the bills (S. 385) to amend section 5 of the United States cotton futures act approved August 11, 1916, as amended, and (S. 399) to prevent the sale of cotton and grain in future markets, which are here printed in full, as follows:

[S. 385, Sixty-seventh Congress, first session.]

A BILL To amend section 5 of the United States cotton futures act, approved August 11, 1916, as amended.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 5 of the United States cotton futures act, approved August 11, 1916, as amended, be, and the same hereby is, amended as follows:

In the fourth subdivision of section 5 of said act, insert "(a)" after "fourth," and before "provide," and add at the end of such fourth subdivision:

"(b) Provide that unless cotton in the basis grade be tendered in settlement of such contract, the buyer shall have the right to demand that one-half of the amount deliverable under the contract shall be delivered in equal quantity in two grades, to be specified by him, and that the seller shall have the right to tender one-half of the amount deliverable under the contract in equal quantity in two grades to be specified by such seller."

The foregoing amendments shall be effective on and after the thirtieth day after the approval of this amendatory act, but nothing herein shall be construed as applicable to contracts entered into prior to the effective date of this amendatory act, or to affect rights acquired or powers exercised thereunder.

[S. 399, Sixty-seventh Congress, first session.]

A BILL To prevent the sale of cotton and grain in future markets.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That certain words used in this act and in proceedings pursuant hereto shall, unless the same be inconsistent with the context, be construed as follows:

The word "message" shall mean any communication by telegraph, telephone, wireless telegraph, cable, or other means of communication from one State or Territory of the United States or the District of Columbia to any other State or Territory of the United States or the District of Columbia or to any foreign country.

The word "grain" shall include wheat, corn, oats, and barley.

The word "person" shall mean any person, partnership, joint-stock company, society, association, or corporation, their managers and officers, and when

used with reference to the commission of acts which are herein required or forbidden shall include persons who are participants in the required or forbidden acts, and the agents, officers, and members of the boards of directors and trustees, or other similar controlling or directing bodies of partnerships, joint-stock companies, societies, associations, and corporations.

And words importing the plural number, wherever used, may be applied to or mean only a single person or thing, and words importing the singular number may be applied to or mean several persons or things.

SEC. 2. That it shall be unlawful for any person to send, or cause to be sent, any message offering to make or enter into a contract for the purchase or sale for future delivery of cotton or grain without intending that such cotton or grain shall be actually delivered or received, or offering to make or enter into a contract whereby any party thereto, or any party for whom or in whose behalf such contract is made, requires the right or privileges to demand in the future the acceptance or delivery of cotton or grain without being thereby obligated to accept or to deliver such cotton or grain; and the transmission of any message relating to any such transaction is hereby declared to be an interference with commerce among the States and Territories and with foreign nations. Any person who shall be guilty of violating this section shall, upon conviction thereof, be fined in any sum not more than $10,000 nor less than $1,000, or shall be imprisoned for not more than six months nor less than one month, or both such fine and imprisonment, and the sending or causing to be sent of each such message shall constitute a separate offense.

SEC. 3. That it shall be the duty of any person sending any message relating to a contract or to the making of a contract for future delivery of cotton or grain to furnish to the person transmitting such message an affidavit stating that he is the owner of such cotton or grain and that he has the intention to deliver such cotton or grain; or that such cotton or grain is at the time in actual course of growth on land owned, controlled, or cultivated by him, and that he has the intention to deliver such cotton or grain; or that he is at the time legally entitled to the right of future possession of such cotton or grain under and by authority of a contract for the sale and future delivery thereof previously made by the owner of such cotton or grain, giving the name of the party or names of parties to such contract and the time when and the place where such contract was made and the price therein stipulated, and that he has the intention to deliver such cotton or grain; or that he has the intention to acquire and deliver such cotton or grain; or that he has the intention to receive and pay for such cotton or grain: *Provided*, That any person electing to do so may file with the telegraph, telephone, wireless telegraph, or cable company an affidavit stating that the message or messages being sent, or to be sent, for the six months next ensuing by such person do not and will not relate to any such contract or offers to contract as are described in section 2 of this act, and any such company shall issue thereupon a certificate evidencing the fact that such affidavit has been duly filed, and such certificate shall be accepted in lieu of the affidavit herein required at all the transmitting offices of such company during the life of said affidavit. Any person who knowingly shall make a false statement in any affidavit provided for in this act shall be punished by a fine of not more than $5,000 nor less than $500, or shall be imprisoned for not more than two years nor less than one year, or by both such fine and imprisonment. And any prosecution under the provisions of sections 2 or 3 of this act the proof of failure to make any affidavit herein required shall be prima facie evidence that said message or messages related to a contract prohibited by section 2 of this act, and the proof of failure to deliver or receive the cotton or grain called for in any contract for future delivery of cotton or grain shall be prima facie evidence that there was no intention to deliver or receive such cotton or grain when said contract was made.

SEC. 4. That any agent of any telegraph, telephone, wireless telegraph, or cable company to whom messages herein described may be tendered is hereby required, empowered, and authorized to administer any oath required to be made under the provisions of this act with like effect and force as officers having a seal, and such oaths shall be administered without any charge therefor.

SEC. 5. That it shall be unlawful for any person owning or operating any telegraph or telephone line, wireless telegraph, cable, or other means of communication or any agent, officer, or employee of such person, knowingly to use such property or knowingly to allow such property to be used for the transmission of any message relating to such contracts as are described in section 2 of this act. Any person who shall be guilty of violating this section shall,

upon conviction thereof, be punished for each offense by a fine of not more than $10,000 nor less than $500, and the sending of each message in violation of the provisions of this section shall constitute a separate offense.

SEC. 6. That every book, newspaper, pamphlet, letter, writing or other publication containing matter tending to induce or promote the making of such contracts as are described in section 2 of this act is hereby declared to be nonmailable matter, and shall not be carried in the mail or delivered by any postmaster or letter carrier. Any person who shall knowingly deposit, or knowingly cause to be deposited, for mailing or delivery any matter declared by this section to be nonmailable, or shall knowingly take or cause the same to be taken from the mails for the purpose of circulating or disposing thereof, or of aiding in the violation of any of the provisions of this section, may be proceeded against by information or indictment and tried and punished, either in the district at which the unlawful publication was mailed or to which it is carried by mail for delivery according to the direction thereof, or at which it is caused to be delivered by mail to the person to whom it is addressed. And the punishment for the violation of this section shall be the same as the punishment prescribed in section 2 of this act for the sending or receiving of messages.

SEC. 7. That the Postmaster General, upon evidence satisfactory to himself that any person in sending through the mails of the United States any matter declared by section 6 of this act to be nonmailable, may instruct the postmasters in the post offices at which such mail arrives to return all such mail to the postmaster in the post office at which it was originally mailed, with the word "unlawful" plainly written or stamped upon the outside thereof, and all such mail, when returned to said postmaster, shall be returned to the sender or publisher thereof under such regulations as the Postmaster General may prescribe.

SEC. 8. That in any proceeding under this act all persons may be required to testify and to produce books and papers, and the claim that such testimony or evidence may tend to criminate the persons giving such testimony or producing such evidence shall not excuse such person from testifying or producing such books and papers; but no person shall be prosecuted or subjected to any penalty or punishment whatever for or on account of any transaction, matter, or thing concerning which he may testify or produce evidence of any character whatever.

Senator KEYES. Senator Dial, I believe you wanted to say something in reference to your bill.

STATEMENT OF SENATOR N. B. DIAL, OF SOUTH CAROLINA.

Senator DIAL. My contention is that the future contract controls the price of the spot cotton. There were no exchanges before the Civil War, but they originated during that war. From that time until the present cotton future contracts have been dealt in. The practice is and has been for the price of future contracts to be made on the basis of middlings. Under the custom the seller of the contract had the right to deliver any 1 of 32 grades on the contract. Under the present law the number of grades were reduced to 20, middlings still being the basis.

Senator KEYES. You are referring to which law?

Senator DIAL. The law of 1914, as amended in 1916. In 1919 the act was amended limiting the number of grades to 10.

Senator SMITH. Let me make a slight correction for the record, that in the cotton futures act, passed in 1919, the grades were limited. The Government was given the right from time to time to standardize the grades. Subsequent to the passage of the cotton futures act, which restricted it to nine standardized grades, the Government went to work and standardized practically the whole gamut of cotton. And we subsequently had to amend the law and say what was standardized.

Senator DIAL. As I understand the law, there are two provisions. Under section 10 the contract specifies a specific grade. I understand, however, that not a single one of those contracts has ever been executed on the New York Exchange. Possibly a few have been on the New Orleans Exchange.

Under the other sections of the law the seller of the contract has the right to deliver any one of the 10 grades on the contract, middling being the basis, and if cotton below that grade is delivered, the purchaser gets a discount, and above that grade he pays a premium. My opinion is that the right of

the seller of the contract to deliver all of the contracts in any one or all of the 10 grades, depresses the price of spot cotton. For instance, an exporter or a mill can not buy a requirement in this way; he can not have a contract converted into a specific grade of cotton that they desire. In practical operation the farmer who is selling his crop, and thereby supplying the demand for cotton, the cotton world knowing that the farmer has to dispose of his crop rapidly, they sell contracts, and then when the contract is maturing, the purchaser thereof, not knowing what grade of cotton he will get, naturally sells out. It is true there has to be a purchaser for every sale, but my complaint is that there is no mutuality in the contract. The purchaser will only buy when he thinks the commodity is at exceedingly low price. He will buy it as depreciated commodity only. For instance, if a jobber were to sell a merchant, say, hats at $6 a dozen to $60 a dozen, and when delivery date arrives, if the jobber had a right to deliver all of the quality in any kind of hats he desired, perhaps they would not suit the trade of the merchant, he would ask that they be sold to another, even if at a loss. The merchant would not make another contract unless the price was so low that he would be prepared to handle any of those articles that might be dumped upon him.

My desire is to have the contracts represent actual cotton that is capable of being converted into the specific needs of the purchaser. There is no custom and no law in the world, so far as I know, that allows the seller of a commodity to select the quality of the commodity for the purchaser. This is inconsistent with the laws of common sense and of merchandising.

It is claimed that my proposed amendment will close the exchange. I do not think this will be the result. At least it is not intended to be the result, for I believe the exchanges, under proper law, serve a beneficial purpose. My contention is that we should have an equitable contract, and if the exchanges can not operate under it, they can cease to operate, so far as I am concerned. I think that the exchanges, operating under proper laws, rules, and regulations, would benefit the growers of the commodities, in that they bring buyers and sellers together. More especially is this important to growers of cotton, where we export in the neighborhood of half the amount we produce. If there were no exchanges there would be a possibility of the users of cotton combining to depress the price. I am not much concerned about the parties who trade in contracts. They can take care of themselves. Under the present law there are times when the price of these future contracts does not represent the actual value of the cotton. What I am endeavoring to do is to get a law that can not be used to depress the price of the actual cotton, that will operate equitably, and that will reflect the actual value of the cotton.

The interest of the grower and purchaser of a contract is identical. The interest of the seller of a contract is diametrically opposed. My father, who was a successful farmer, complained most bitterly all of his life that the exchanges kept a lot of dog-tail cotton on hand which they would or could tender and thereby depress the price of his actual cotton.

Also some remedy should be provided to prevent future sales of crops before they are even planted. At the present time they are selling next year's crop and it is not known within 5,000,000 acres of how much will be planted. Assuming that many millions be sold, say, at 15 cents, how is this price to be changed much?

My first remedy is this, to wit: Repeal section 5 of the present law and thereby require the grade of cotton to be specifically specified at the time the contract is made.

Let us be fair to all parties concerned, because I think we are endeavoring to accomplish the same purpose.

The objection that could be urged to the above suggestion would be that it would restrict trading in future contracts greatly. I believe this to be true, and think a great deal of such trading should cease.

It would be urged also against this proposition that it would convert the exchange practically into a spot market. I do not concede this.

To my mind a great injustice is done the grower of cotton by the unlimited number of contracts that are dealt in. For instance, in 1919 there was raised in the United Sttaes less than 12,000,000 bales of cotton, yet on the New York Exchange there was bought and sold 104,860,100 bales of cotton, and only 139,108 bales delivered. The world annual consumption is around 21,000,000.

It is claimed that the exchange is used as a means for hedging, or insurance, and is not a place where cotton may be obtained. While this is true in practice, yet I believe that unlimited sales of cotton depress the price of the actual

commodity. After mill requirements are purchased who is going to continue contracts? The purchaser and seller of the contract should be on equal terms. We are taught that overproduction depresses the price of a commodity. Does not overselling operate to the same effect? Supposing the mills were to purchase their entire year's requirement in advance, then who would support the market thereafter? Speculators, of course, and then when the buyer is at a disadvantage under the contract, he naturally sells out.

For instance, the 10 years' average production of cotton in the United States is about 13,500,000 bales. After all of this cotton has been sold then these other contracts would not be hedging contracts, but would be speculative contracts. To my mind if a party had a right to sell an unlimited amount of stock of any corporation to be delivered in the future by continuous selling at a declining price they could buy all the actual stock at much less than its real value.

The way the exchange is operated is, for instance, for Liverpool to sell contracts—not cotton. This affects the New York and New Orleans markets, and the price declines, and in the meantime the parties desiring to procure the actual cotton have their agents through the South, and they then buy the commodity.

Second. Another suggestion would be to require the purchaser and the seller to select each one-half the quantity of the contract, to make them divide that half equally between two grades, of course all being selected out of the 10 grades.

Senator KEYES. That is what your bill provides?

Senator DIAL. I am trying to get your help. I have another suggestion which I think is better than that.

If we would let the purchased select one-half of the quantity, the argument is that he would select all of that half in a grade of which there is very little grown and corner the market and run the price sky high. I do not desire any such result, but possibly this would be the effect. I therefore suggest that you make each party divide his half in two grades, or perhaps it would not be a mistake to make each divide their half into three grades.

The objection that could be raised to this would be that the purchaser would be forced to take half of the cotton in grades that he did not want in order to get half that he did want, but I believe this would tend to increase the price of the whole crop. It could not be said that there is as much wrong in letting the purchaser select half of the quantity and run the price up as in the present law which allows the seller to select all the commodity, keeping the price low.

As cotton is grown and not manufactured there will be a difference in grades. It is not like cloth, where you can make a yard, and make the next yard the same.

Third. There is very little cotton raised of the grade known as middling fair, and this grade disarranges the price scheme of the whole 10 grades. Therefore, my third suggestion would be this, to wit: Leave off middling fair as one of the grades which you can deliver. Classify the other nine grades in three classes, A, B, and C, with three grades in each class.

I am not an expert, but I have grown and handled cotton in a limited way all my adult life. I believe that under this last suggestion the price would be stabilized and the requirements of the users of cotton could be more readily met.

Senator CARAWAY. That is, subdivisions A, B, and C?

Senator DIAL. Of the nine grades.

Senator CARAWAY. I know; but what do you mean by that? I did not get that?

Senator DIAL. The idea of grouping three grades together would be that, as I understand, a mill could manufacture either one of the three grades. For instance, if they were making fine goods they could use either one of the three grades mentioned in class A. If they were making coarse goods, they could use either one of the grades mentioned in class C. Under this suggestion the right of the seller of a specific contract would be limited to 3 grades instead of, as under the present law, to 10 grades. Let the middle grade of each of these classes be the basis, with a graduated price, of course, up or down.

Senator CARAWAY. If he sells class A he has got to deliver one of those three grades?

Senator DIAL. Yes. The buyer of the contract, knowing he would get then one of the three grades, would in all probability demand the delivery of his cotton and not sell out his contract, and thereby this would help the price to the grower.

I am not complaining about the present method under the law of fixing the price of the actual cotton in case a delivery is to be made, but what I am complaining of is that the price of that cotton would have been more on that date if under the present law the purchaser of the contract could have selected a grade of cotton suitable to his use. To my mind, either one of the above amendments would stabilize the price of cotton. If one knew that he were likely to be called upon to deliver the article that he was selling, he would be more careful about making contracts. Under the present law the seller of the contract, knowing that the purchaser is not on even terms with him, continues to sell. He can select any one or some of all of 10 grades; the purchaser can select none.

In regard to cotton mills, I want to say that my information is that they do not object to paying higher prices for cotton, but violent fluctuations are certainly against their interests. My main object is to aid the grower and is to make a fair law that will operate fairly to every interest.

Frequently we see the price of cotton fluctuating 2 cents a pound in one day, and frequently the violent decline continues for several days. To my mind this is unreasonable and is caused by manipulation. Certainly the intrinsic value of the actual commodity would not decline at any such rate.

There is no question but what there is too great a difference made between the values of the grades of cotton, but I know of no way of correcting this by law.

Further objection to the present law is this, that, for instance, quotations are daily published which are misleading. For instance, we read where a March contract is 17.50. Now, assuming that the owner of spot cotton desires to sell, the proposed buyer will tell him there is no use to pay him over 17.50 a pound because he can purchase a contract at that figure to be delivered some months hence, whereas he can not get any specific grade of cotton on that contract. In other words, the quotation is misleading; it is used to coerce the owner of the actual cotton to part with it for less than its value.

It may be said that if the purchaser of the contract receives actual cotton that the price will be fixed under the law by the Secretary of Agriculture by taking the aggregate price in 10 spot markets on the day preceding the sale, and this perhaps operates reasonably with the parties to that contract. But, the point I am making is that the price of the spot cotton on those 10 markets on the preceding day or on any other day would not have been as low if the contract under the law were equitable—that is, if the purchaser of the contract had equal rights with the seller; hence, this injuriously affects the grower.

A further complaint we make is that under the contract you do not get even a fair price for the lowest grade of cotton, because you haven't brought the right purchser and the seller together. For instance, you and I would not give $2 for a brogan pair of shoes, not but perhaps they are worth it, but we don't want to wear that kind of a shoe nor to put any money into it, nor to go to the trouble of getting some one who uses that kind of a shoe to purchase it; hence if the seller of a contract tenders a grade that is not suitable to the use of the purchaser, he would not want it, even at a depreciated price.

Under the present law the supply and demand is hobbled. Whoever can pay the most margin controls the direction of the market.

Very extensive hearings were held on this subject by the Agricultural Committee of the House and also of the Senate some years ago and I refer you to a report that was made in 1914. What I desire is to get a law which will be as near a perfect law as possible and if any member of this committee has any better suggestion than I have made I would be delighted to cooperate with him.

Senator CARAWAY. Just a minute. I want to say this. I introduced a bill that I want to get a hearing on some day.

The CHAIRMAN. Both of these bills were referred to this subcommittee.

STATEMENT OF SENATOR T. H. CARAWAY, OF ARKANSAS.

Senator CARAWAY. There is no doubt but that a man should be permitted to sell that which he has, or to sell a contract for what he has reasonable expectation to have. In other words, if a man has an expectation of a crop of say 100 bales, I can see no objection to his selling it to be delivered when that crop is gathered; nor would I want to restrict a man who bought his contract from selling that hundred bales to another, say a spinner, if he has an expectation of getting the cotton for future delivery. I don't think it would be wise to restrict trading to the point of waiting until the spot cotton is on the market to buy. A man ought to be permitted in advance of the manufacrure to buy cotton, and therefore the man who is expected to produce it ought to be permitted

to sell it; but that is as far as the process ought to go. No man, in other words, ought to be permitted to sell that which he does not have in his possession or in expectation. Every sale that is made ought to be made upon cotton that is reasonably in existence, and therefore I introduced a bill which does not invoke the taxing power but uses the power to control communications.

I have two reasons for preferring the use of that power rather than the taxing power. The taxing power used in the grain-exchange bill is a fiction. We do not expect to raise a dollar from it for revenue and it had this psychological effect: There is a feeling among agricultural people that we are using the taxing power to control the market. It may not be true, but the impression is abroad that we are thus using the taxing power, and its effect is bad, psychologically.

And, again, there is not any power to control the sales where they take place outside of the jurisdiction of the United States if the taxing power is invoked. On the other hand, as we have control of means of communication, both interstate and foreign, we can control not only the sales that take place within our own country, but we can control to an extent at least trading in futures in foreign countries.

The argument usually made against the restriction of exchanges in this country is that we merely transfer the seat of the activity in cotton, for instance, from New York and New Orleans to Liverpool and Bremen. Under the taxing power that is true to a certain extent. Under the control of communications that is not true, because we can prohibit any man from transacting business with an exchange in any State or Territory subject to the United States, or anywhere else, since we have power under our Constitution to control absolutely the means of our communication, and therefore we can control contracts to sell or offer to sell future delivery if the seller or buyer is in this country and does not own or the purchaser does not expect to receive the actual commodity.

The bill I have sponsored is just a rewrite of what was a long time ago known as the Scott bill, championed by Mr. Scott, of Kansas.

I have not had any very large experience in exchange activities in the selling of cotton for future delivery. On the other hand, I have grown cotton and have sold it. I have sold it through commission merchants. I have watched the processes. It is always true that when the product is in the hands of the producer and must be sold, because it is a sad fact, but true nevertheless, that there is not any class of agriculturists that is so completely tied to a market system as the growers of cotton.

I have heard it said, and I think it is entirely reasonable, that 75 per cent of the cotton farmers sell their product before it is produced. In other words, the producer of cotton is usually from one to two years behind. I know that is true in my county. The laws give the right to mortgage the crop before it is even planted, and it gives to the landowner an absolute lien on what is produced upon his land for his rent and supplies. So this security the landlord or the supply merchant purchases and the producer sells, and as soon as his cotton is matured it is taken charge of by the man who did not produce it, but by the man who supplied the actual producer, and it goes to the market. We say it is distressed cotton; that is, must be sold. Cotton is always quoted very much lower when the actual commodity is being offered for sale and until it gets out of the hands of the men who sweat to produce it. At that time there is always a declining market. The rise in cotton comes after the cotton is out of the hands of the actual producer.

The spinner, under the present law—and I regret to criticize it—if he may go into the market and hedge to any extent and the exchanges may sell to any number of bales without any regard to what is actually in hand, the temptation is there, and the opportunity is there for an understanding between the buyers in the market and the actual consumer, the spinner. The results show that they do actually cooperate. In other words, if you want to buy cotton, and I am a seller of contracts, it is easy for you and me to agree that you stay out of the market while the actual product is being forced upon the market, and I will sell you a future contract, which means that if you do not get the cotton you can get, the commercial difference and then go into the market and buy your cotton. That is to say, I can offer an unlimited amount of cotton for sale, and you being the only ultimate consumer—because the spinner is the only ultimate consumer of cotton—the price will probably drop and drop and drop, and I make on my margins and you make on your actual contract by finally getting your product at less than it cost to produce it. The mere statement of it may carry no very great significance to the person who is not familiar with the producers and consumers of cotton, but these processes are so apparent to us who have

put in all our lives growing and selling cotton that to me at least it needs no argument.

I want to say to you, Mr. Chairman, that I am familiar with the condition of cotton growers and there is no other class of people living that live under such distressing and inadequate conditions as they. Take my own section. It is among the richest lands in the world, where we do not spend one penny for fertilizer, where the growers are not subjected to any extraordinary strains, where we have no long, hard winters, and where stock can live out of doors a great portion of the year, and yet in those sections where the cotton is produced, where the land is so fertile, the conditions are poorest. The best houses in my country, the best living conditions are those in the sections where the lands are not fertile, and where they are not intended to grow cotton, and the worst living conditions, the poorest facilities for educating the family are in those sections where the soil is most fertile and cotton is grown. It is not that cotton as a whole does not produce a great deal of wealth. It does. It controls the balance of trade, I think. But the system of marketing takes away from the man that produces it whatever profit accrues, and gives it to the spinner, the cotton buyer, the cotton merchant, and cotton brokers, as we call them in my country. It is true that nearly every big plantation in my country at one time or another passed out of the hands of the planter into the hands of the cotton merchant, who has handled its product.

I know, just merely as an illustration, of two big plantations that lie in one county of my State. They lie side by side. One is 13,000 acres and the other is 12,500 acres. About half of each is in cultivation. The land is just as rich as can be. There is no end to its fertility. I have known both of those places about 15 years. One of them is Sunnyside and one is Redleaf. Both of them have been through the bankruptcy courts twice in 15 years. One of them is in bankruptcy now and sold the other day for just what the first mortgage is. Both of those plantations have sold for less than the actual improvements. One of them sold for $17.50 an acre, with all of its personal property, including possibly 100 head of mules that cost two or three hundred dollars each, and all of the farm tools. The other, with 16 miles of rail to carry the crop to the gin, and every improvement, sold at $25 an acre.

The cotton crop as a whole has produced money, but the marketing system has taken every penny of it away from the man who actually grows it.

Personally, if I may be permitted to say this, I went to the cotton field when I was seven years old. I stayed there until I was grown, as an actual producer of cotton, as a hired hand, a share cropper, and in more recent years the owner of farm land. I know both sides of the production and selling of cotton as an ordinary cotton grower. I have produced it with my own hands; I have gathered it; I have carried it to market and sold it at whatever the man who bought it was willing to pay for it. Then I have produced it by owning the land and renting it on shares, and year in and year out, taking it altogether, there is not any possibility, under the present marketing system, of the man that grows cotton keeping out of the bankruptcy court. I think, as a whole, that the growing of cotton has produced a balance of trade in favor of this country, and that there is profit in cotton, but that profit goes to the speculator and not to the man that produces it.

The CHAIRMAN. How long has this condition prevailed that you are now describing?

Senator CARAWAY. As Senator Dial says, since the Civil War. I am talking about just as far back as my memory runs.

The CHAIRMAN. It seems to me strange that it should continue so long without adjusting itself in some way.

Senator CARAWAY. I went to the cotton fields 40 years ago, and I have been as closely associated with the growers and sellers of cotton as a man can be. It has been the main thing of my whole life. After I left the farm to engage in a profession every penny I could get I put into the growing of cotton. It has a kind of fascination, like gambling; we go back to it, although we realize that there is no profit in it.

As strange as this may seem, we know so little about conditions that exist in our common country, the east and the west and the north and the south, that whenever we bring legislation touching these matters to the attention of Congress it often fails. We haven't even been agreed among ourselves as to the remedy. No suggestion can be offered as a solution of the problem of marketing cotton that does not meet opposition among the people who are vitally interested. Some of it arises out of an honest difference of opinion of men who have equal

opportunities to know the situation. Some of it arises out of propaganda. The present system of marketing will find many southern people who are honest in their belief that it is a good system. It finds a great deal of support among people who are afraid of making any change. There is no section in this country that is so conservative as the South. They are afraid of any change. Men who have spent their lives under this system are afraid to accept any other. They are afraid always that the conditions that will be brought about may disturb the market and destroy them. A cotton crop usually represents to the man who grows it his entire fortune. He has got his whole fortune at stake each year, and he is afraid of changes. Now, personally, I want to see the spinner have the opportunity to buy in advance of the manufacturer of his cloth the supplies with which he is going to manufacture, so that he will know what it is going to cost him. He has a right to know that. In other words, he ought not to be compelled to sell goods for future delivery when he does not know what the material out of which he is going to spin them is to cost him. I, therefore, under my bill, permit him to buy contracts for actual delivery of cotton, and I would permit the planter, who plants the crop, to sell it for future delivery. If I am going to plant a thousand acres in cotton and I have already made all my arrangements, have all of the labor, all of the tools, all of the land and supplies to make that crop, I ought to be permitted to sell a contract for future delivery of what is a fair presumption that that crop will yield, so that I will not be compelled to labor through the year and then get, next October, less than the cost of production. I would not prohibit the farmer from selling his contract to deliver cotton that he is going to plant. I would not prohibit the man who is going to buy that contract selling it to the spinner, so that the spinner will know now what he is going to have to pay for cotton next October. But no further than that would I permit the selling of future contracts. Whoever sells must be in actual possession or, through contractual relations, in legal possession of the cotton to make delivery.

The CHAIRMAN. Your bill goes just that far?

Senator CARAWAY. That far and no further. I would not permit people on the markets to sell millions of bales that do not exist and never will exist to people who do not want them, never expect to receive them, but just simply manipulate the market up and down for the benefit of speculators at the cost of the producer, and incidentally to the cost of the consumer. As long as that condition exists the price of cotton will be manipulated, and the man who grows it will be stripped to the bone every year.

(Informal discussion.)

Senator CARAWAY. Of course, we are all familiar with the legislation along those lines, but I believe that Senator Smith will agree that the law did not produce the effect that he hoped. It left room for the gambler, and as long as it is possible to sell contracts and to buy contracts where the seller neither intends to deliver nor the buyer to accept delivery, then the cotton market is going to be a gamblers' market. For instance, in my State we produced about a million bales of cotton. The other day, when the ginners' report came out showing that the cotton was absolutely out of the field and to the gin, and the supply was much less than the Agricultural Department's former report would indicate, therefore less cotton than the market would have a right to expect, it broke $3 a bale. Now, that is all reflected in the market. That would reflect a loss of $3,000,000 to the producer of cotton in my own State, when everybody knows——

The CHAIRMAN. You mean in your State?

Senator CARAWAY. Yes; in my own State. It would be a loss of $3,000,000 to the growers of cotton when everybody knows that it is a gambler's raid. I have known cotton which would sell at a certain price in a little town down home to drop $10 a bale by noon just simply reacting to a gambler's market in New York, and that $10 a bale represented more than the actual profit to the man who produced it. In other words, somebody selling a thing that he did not own, in New York, could wipe out every dollar of profit of thousands of men who, with every member of their family, had labored months and months to produce. Somebody that never saw it, never would see it, never would have anything to do with the actual product, might wipe out the profit of the whole year's work. Therefore I hope Senator Smith will agree with me, or I can agree with him on some legislation to meet the situation.

I wish to amend the bill I have offered by striking out all reference to grain.

(Informal discussion.)

(Whereupon at 11.45 o'clock a. m. the subcommittee adjourned to meet at the call of the chairman.)

TO AMEND SECTION 5 OF THE COTTON FUTURES ACT AND TO PREVENT THE SALE OF COTTON AND GRAIN IN FUTURE MARKETS.

TUESDAY, FEBRUARY 14, 1922.

UNITED STATES SENATE,
SUBCOMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D. C.

The subcommittee met pursuant to call at 10.30 o'clock a. m. in room 201 Senate Office Building, Senator Henry W. Keyes presiding.

Present: Senators Keyes (chairman) and Smith.

Senator KEYES. The committee will come to order. Since the last meeting of the committee, when S. 385 and S. 399 were taken up, S. 385 having been introduced by Senator Dial, a new bill has been introduced by Senator Dial, S. 3146, which he asks to have treated as a substitute for the previous bill, S. 385, and the chairman of the Agricultural Committee has referred that bill, S. 3146, to this subcommittee, to be heard in connection with the other bills mentioned.

I do not know whether the witnesses here present will be familiar with S. 3146 or not, it just having been introduced yesterday and printed last night, but it is to be treated as a substitute for S. 385. Senate bill 3146, as above referred to, is here printed in full, as follows:

[S. 3146, Sixty-seventh Congress, second session.]

A BILL To amend section 5 of the United States cotton futures act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the second subdivision of section 5 of the United States cotton futures act, approved August 11, 1916, as amended, is amended to read as follows:

"Second. (a) Specify as the class of the contract one of the following classes:

"Class A, which shall include only middling fair, strict good middling, good middling, and strict middling grades;

"Class B, which shall include only strict middling, middling, strict low middling, and good middling yellow tinged grades;

"Class C, which shall include only strict low middling, low middling, strict middling yellow tinged, and good middling yellow stained grades.

"(b) Specify the basis grade for the cotton involved in the contract, which shall be one of the grades for which standards are established by the Secretary of Agriculture, and which shall be one of the grades included within a class in paragraph (a) of this subdivision; the price per pound at which the cotton of such basis grade is contracted to be bought or sold; the date when the purchase or sale was made; and the month or months in which the contract is to be fulfilled or settled.

"(c) If no other class is specified in the contract, or in the memorandum evidencing the same, the contract shall be deemed a Class B contract.

"(d) If no other basis grade be specified in the contract, or in the memorandum evidencing the same, good middling shall be deemed the basis grade incorporated into a Class A contract, middling shall be deemed the basis grade incorporated into a Class B contract, and low middling shall be deemed the basis grade incorporated into a Class C contract."

SEC. 2. That the third subdivision of section 5 of such act is amended to read as follows:

"Third. Provide that the cotton dealt with therein or delivered thereunder shall be of or within the grades for which standards are established by the Secretary of Agriculture, and of or within the grades included within the class so specified or incorporated as the class of the contract, and that cotton of any other grade or grades shall not be dealt with therein nor delivered thereunder."

SEC. 3. That the fifth subdivision of section 5 of such act, as amended, is amended to read as follows:

"Fifth. Provide that cotton that, because of the presence of extraneous matter of any character, or irregularities or defects, is reduced in value below that of strict middling

in the case of a class A contract, strict low middling in the case of a class B contract, or low middling in the case of a class C contract, the grades mentioned being of the official cotton standards of the United States, or cotton that is less than seven-eighths of an inch in length of staple, or cotton of perished staple or of immature staple, or cotton that is 'gin cut' or reginned, or cotton that is 'repacked' or 'false packed' or 'mixed packed' or 'water packed,' shall not be delivered on, under, or in settlement of such contract."

SEC. 4. That the second paragraph of the seventh subdivision of section 5 of such act, as amended, is amended to read as follows:

"The provisions of the third, fourth, fifth, sixth, and seventh subdivisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase 'subject to United States cotton futures act, section 5, class A,' if the contract is a class A contract, or the phrase 'subject to United States cotton futures act, section 5, class B,' if the contract is a class B contract, or the phrase 'subject to United States cotton futures act, section 5, class C,' if the contract is a class C contract."

SEC. 5. That the provisions of this act shall be effective on and after the thirtieth day after its passage, but such provisions shall not be construed as applicable to nor as affecting any right, power, privilege, or immunity under any contract entered into prior to such day.

Senator SMITH. Mr. Chairman, if I may be allowed to say, this is an absolutely fundamental change in the whole process of contractual agreements as to the sale of cotton.

Senator KEYES. You are referring now to S. 3146?

Senator SMITH. Yes. This breaks up the one basis and substitutes therefor three, as the law now says all contracts shall be sold basis middling. This proposes three bases, A, B, and C, including within those three bases a certain number of grades. It establishes a basis grade for each one of the three classes. I should imagine it would take some considerable time to even visualize just how that actually could be put into operation.

Senator KEYES. I think we may as well go on and hear these witnesses who are present on the general features of the legislation, in any event.

Senator SMITH. Very well.

Senator RANSDELL. Mr. Chairman, just a very brief explanation. I do not care to make any statement myself at this time.

The president of the New Orleans Cotton Exchange, Mr. Edward Butler, attempted to reach here to testify to-day in regard to these measures, but was suddenly called home while en route by the serious illness of his wife, and he has sent us a statement which I would like to have go in the record, and he has also asked Mr. E. B. Norman, of New Orleans, to speak for him.

I will ask now if Mr. Norman will come around here, please, and address the committee.

STATEMENT OF MR. E. B. NORMAN, NEW ORLEANS, LA.

Senator RANSDELL. Mr. Norman, if you will, give your name, occupation, business connection, address, and so on.

Mr. NORMAN. E. B. Norman. I am a cotton merchant.

Senator RANSDELL. With what firm are you connected?

Mr. NORMAN. H. & C. Newman (Inc.), of New Orleans, La.

Senator RANSDELL. Are you associated with the exchange?

Mr. NORMAN. And I am a member of the New Orleans Cotton Exchange.

Senator KEYES. Pardon me. That is not the same as the Galveston Cotton Exchange?

Mr. NORMAN. No, sir.

Senator KEYES. That is another exchange?

Mr. NORMAN. That is another exchange.

Senator KEYES. I thought the cotton exchanges were limited to New Orleans and New York.

Senator RANSDELL. There are only two chief future contract exchanges.

Mr. NORMAN. Except the American Exchange, which I know very little about.

Senator RANSDELL. Where is that?

Mr. NORMAN. That is in New York also.

Senator RANSDELL. I did not know about that. But there is a great cotton exchange center in New Orleans and one in New York which deals in future contracts, and the other exchanges, as I understand it, such as that in Galveston, Little Rock, Memphis, Savannah, Atlanta—and is there one at Charleston?

Mr. NORMAN. There is one in nearly every large city of the South.

Senator RANSDELL. They do not deal in cotton futures?

Mr. NORMAN. No, sir. I would like it well understood, however, that the New Orleans Cotton Exchange does not deal only in futures. As a matter of fact, the New Orleans Cotton Exchange was primarily organized for dealing in spot cotton, and uses futures only as a link for handling its spot cotton.

The principal merchants in the city of New Orleans, cotton merchants, who are members of the cotton exchange, are primarily spot cotton dealers, and the New Orleans Cotton Exchange was never organized for the purpose of speculation.

Senator RANSDELL. Won't you explain briefly, in that connection, your own firm's methods of doing business now? You are a spot cotton dealer yourself, or your firm is?

Mr. NORMAN. I shall be glad to explain that, and I shall be very glad if you gentlemen will ask me any questions that you may want to ask in connection with the handling of spot cotton and futures.

My firm has been in the cotton business for many, many years—over 50 years. They have been cotton factors, who handled spot cotton for account of their farmer customers, and merchant customers scattered throughout small interior points. They sell spot cotton on a commission for account of those customers, getting the best price that they possibly can.

Now, it is only in recent years that the future market has become such an important necessity in the handling of cotton. Formerly the prices of cotton would range around 8 cents, 9 cents, and fluctuations were not very great; but during the war prices went up very high, and it would have been almost impossible to handle cotton successfully without the use of the futures market; and when the price of cotton goes very high of course you will find that there are speculators who will sell on the market, but when the price of cotton goes very low, there is an enormous purchasing power in the South in the small spot buyer and speculator that comes to the rescue of cotton and buys spot cotton and future contracts.

I consider that this purchasing power of the South is the most potent that we have in the cotton business. There is no question about that. Individually, they may have small resources, but collectively, when cotton goes too low, they are always ready to come into the breach and buy cotton and in that way we keep cotton at a sort of an equilibrium.

Senator RANSDELL. You mean they buy on the exchange?

Mr. NORMAN. Yes; they buy on the exchange, and buy spot cotton. But during the past year we had an enormous surplus of cotton throughout the South. There was no demand in Europe. There was no demand from the cotton mills. We were undergoing deflation, and the price of spot cotton went down to about 10 cents per pound in the interior. When it was on the way down to 10 cents, about the time that spot cotton struck 18 cents, the buyers throughout the South began to buy cotton, and speculators bought futures, because they figured that 18 cents was low enough for cotton. Of course, they were mistaken, because cotton went down below 18 cents. It went on down to 10 cents. But it is an absolute fact that on the way down spot cotton led the decline and future cotton then began to be quoted at higher prices than spot. At that time firms with large resources came into the market and bought spot cotton which they were able to hedge through future contracts. Without the use of those future contracts, which was their insurance, those large firms would have been unable to buy the enourmous quantities of spot cotton that they did buy.

Senator RANSDELL. Please explain in simple language what you mean by this hedge?

Mr. NORMAN. What I mean by a hedge is when a spot firm buys 100 bales of futures, say, at 15 cents a pound.

Senator RANSDELL. To be delivered some time in the future. Do you mean for future delivery?

Mr. NORMAN. Either for future delivery or for immediate delivery, at a fixed price. The buyer then sells 100 bales of future contracts, say, at 15½ cents, which is his insurance. If the market goes down he makes a profit on the future contract that he sells, and he loses money on the spot cotton that he has. If the market goes up he loses money on the future contract that he sells and he makes an equivalent amount of money on the spot cotton that he buys.

I have prepared here a statement——

Senator RANSDELL. Just a moment. Now, he uses that future contract, then, as an insurance?

Mr. NORMAN. As an insurance, exactly.

Senator RANSDELL. And he does not expect to actually take the cotton, but he uses that to guarantee himself against losing on the spots that he has bought?

Mr. NORMAN. Sometimes he expects to take the cotton. That is a very interesting subject.

Yesterday Senator Dial denounced in unmeasured terms the United States cotton futures act, known as the Smith-Lever law. He said it was not right; that it ought to be improved; that it was unfair as it is now. Yet, as a matter of fact the cotton trade, which makes use of the future contracts as presently constituted, is very well pleased with that contract. The buyer is pleased with it and the seller is pleased with it. As a matter of fact, the contract has worked so well as a price insurance that it has not been profitable to either receive cotton on a contract to any great extent during the past several years nor has it been profitable to deliver cotton against your sales. If you have a perfect contract there is no cotton delivered against the sales, nor is that cotton received against the purchase, because the difference in the grades below middling, which are value differences, are so fair to the buyer and to the seller that there is no advantage to either one—to the seller to deliver or to the buyer to receive.

Senator CARAWAY. May I ask a question?

Mr. NORMAN. Certainly.

Senator CARAWAY. You mean by seller of a contract—you don't mean the actual sale of the cotton?

Mr. NORMAN. The actual sale of a future contract.

Senator CARAWAY. In other words, the machine works so well that both of them make money out of it?

Mr. NORMAN. No, sir; I don't mean to say that.

Senator CARAWAY. Then who does pay? You say you lose the money on your future contract. Who pays that? Who makes it? Does the consumer of the cotton goods or the producer of the cotton?

Mr. NORMAN. Well, I contend that there is a buyer for every seller.

Senator CARAWAY. Of course; that is elementary. One could not buy without the other one sold. But who finally bears the burden of the expense of your so-called insurance?

Mr. NORMAN. There may be no burden whatsoever.

Senator CARAWAY. You pay out the money, don't you? Somebody pays out money.

Mr. NORMAN. On the one hand, one buyer buys a thousand bales of spot cotton, and he sells a thousand bales of futures. On the other hand, a seller sells a thousand bales of spot cotton, and he buys a thousand bales of futures. Now, this seller who sells futures sells it to the spot man who buys futures, and then, in that case, there would be no loss whatsoever.

Senator CARAWAY. Everybody pays a premium and nobody loses?

Mr. NORMAN. In that particular case there would be no loss whatsoever.

Senator CARAWAY. Suppose you pay out a thousand dollars for insurance; how do you get it back?

Mr. NORMAN. You don't want to get it back.

Senator RANSDELL. You don't mean to say you do not pay the cost of insurance. You pay the cost of insurance, but you don't stand any other loss than the cost of insurance.

Mr. NORMAN. You pay the commission.

Senator CARAWAY. Who loses that money? The grower of the cotton or the consumer of the cotton?

Mr. NORMAN. Neither one, necessarily.

Senator CARAWAY. Then who does, necessarily?

Mr. NORMAN. No one necessarily.

Senator CARAWAY. Well, does anybody?

Mr. NORMAN. Not necessarily.

Senator CARAWAY. Then, you are a wonderful financier if you can tell us how you figure out a thousand dollars and it costs nobody a penny.

Mr. NORMAN. All you lose necessarily is your commission. If you happen to have a mill buying a thousand bales of cotton against goods, which represent a thousand bales of cotton, the seller, who sells a thousand bales of cotton to the mill, purchases a thousand bales of cotton future, don't you see?

Senator CARAWAY. I know; both of them get insurance, but somebody has got to pay for it, and the ultimate consumer or the original producer of the cotton, one or the other, pays, does he not? It is added to the cost one way or the other.

Mr. NORMAN. What is added to the cost is the commission. When you take the speculator, he may either make or lose, as the case may be.

Senator CARAWAY. Well, pardon me. Of course anybody knows that. Anybody who gambles may lose. But you said that the cotton futures act works so well that both the buyer and the seller were pleased with it.

Mr. NORMAN. Yes, sir.

Senator CARAWAY. What produced the violent declines in the cotton market in 1921–22?

Mr. NORMAN. In the futures market?

Senator CARAWAY. Yes.

Mr. NORMAN. I could not tell. We have more violent rises in the future market, as a rule, than we have declines.

Senator CARAWAY. We had in 1920 and 1921 both rises and declines.

Mr. NORMAN. We had in 1921, commencing about August 14, a very, very violent rise in the cotton market.

Senator CARAWAY. How long did it last?

Mr. NORMAN. It lasted until about December, when the demand for spot cotton pegged out. Then naturally, automatically depression——

Senator CARAWAY. Have you got anything here to put in the record to show how the market fluctuated?

Mr. NORMAN. I have. I think you can follow very easily, and I think you will find——

Senator KEYES. It seems to me we are perhaps wandering in the way which testimony is being heard. This whole discussion seems to lead us almost nowhere and the witness, it seems to me, is here to be heard on the bills before the committee. If the witness could first be allowed to make any statement that he desires in regard to the bills before us, it certainly would be helpful to me at least in understanding some of the complications of cotton marketing. I wish that we might hear what the witness has to say in regard to the proposed legislation covered by these bills and then if anybody desires to ask any questions they can do so.

Senator RANSDELL. Proceed, Mr. Norman, and explain the functions of the cotton exchange and the objections which you have to these bills, and please go ahead in your own way.

Mr. NORMAN. As I mentioned, Senator Dial denounced in very strong terms the United States cotton futures act as at present constituted. I contend that this law works out very satisfactorily to both the buyer and the seller in the performance of the functions that it was intended to perform; and, as a matter of fact, gentlemen, to give you an idea of how the farmer gets the advantage of the sale of future contracts at times, last year, in the spring of the year, we had no demand for spot cotton at all. You could not sell it. The firm that I represent had about 20,000 bales of spot cotton belonging to small farmers throughout the country.

Senator RANSDELL. In several States?

Mr. NORMAN. In several States. They could not sell spot cotton at 11½ cents a pound, yet the speculator took a more optimistic view about the futures and bought futures, and while spot cotton could not be sold readily at 11½ cents, future cotton could be sold at 12 cents a pound right in the city of New Orleans. My firm sold thousands of bales of March cotton and May cotton belonging to their customers, little customers scattered around the country. They had this cotton certificated in accordance with the Smith-Lever law, and they delivered this cotton on contracts at 50 points higher than they could get for the spot cotton on the market. They delivered basis middling, which has been so criticized by Senator Dial. They delivered basis middling at 50 points higher than they could sell even running middling on the New Orleans spot-cotton market.

Senator RANSDELL. What would have happened, in your judgment, to the spot-cotton market if there had not been an opportunity at that time to sell the spots on the futures market?

Mr. NORMAN. My dear sir, if the speculator and the small cotton buyers throughout the South did not come into the breach at that time and buy future cotton, I don't know how low spot cotton would have gone. It certainly could have gone to 6 cents a pound.

Senator RANSDELL. Certainly much lower than it did?

Mr. NORMAN. Yes. It might have gone to 6 cents a pound, the same price that it went to after the cotton exchanges were closed in 1914. I went into the market——

Senator RANSDELL. That is very interesting. When the cotton exchanges were closed in 1914, what happened?

Mr. NORMAN. When they closed, futures were quoted at 12 cents a pound.

Senator RANSDELL. That was because of the war, they were closed in 1914?

Mr. NORMAN. Because of the war. After they were closed spot cotton went down to 6 cents a pound.

Senator RANSDELL. There was no chance to speculate then; no exchanges on which you could speculate?

Mr. NORMAN. No exchanges on which you could speculate. New York or New Orleans, or anywhere else. Liverpool was closed also.

Senator RANSDELL. And cotton went to 6 cents?

Mr. NORMAN. Yes. Then after the war during this terrible deflation that we had, commencing in 1920, it hurt the South terribly. During this terrible deflation spot cotton was going begging, and you could not sell it. It went down to 10 cents a pound in the country. Yet, as I say, we were able to sell future contracts for our customers and deliver the farmers' cotton on those future contracts. We delivered about 10,000 bales, I think, during the several months when we could not sell spot cotton. We delivered this basis middling cotton in grades between low middling and middling fair at honest differences. We try to keep the differences honest and fair to both buyer and seller. We delivered these grades basis middling at 50 points above what we could get for even running cotton on the New Orleans market.

Senator RANSDELL. And that was because there was a speculative element in the South which had confidence that the cotton would go up?

Mr. NORMAN. Yes, sir.

Senator RANSDELL. And there were exchanges on which a contract of that kind could be made?

Mr. NORMAN. Yes, sir. And their confidence was fully justified in the manner in which the cotton market reacted in August.

Now, gentlemen, as I explained before, a perfect contract very rarely would permit of the delivery or receiving of cotton on contract, or it would not perform the functions for which it was intended; that is, price insurance. Anybody can realize if they stop to consider that any grade that you receive on this contract you receive at the proper allowance. If it is middling you receive it at the price that you pay for the contract. If it is strict low middling you receive it at the proper discount under middling. If it is strict middling, you receive it at the proper premium above middling. In other words, the commercial difference, which is diametrically opposed to fixed difference, and for that reason our future market functions very closely with spot cotton.

Senator RANSDELL. Please explain, Mr. Norman, why it is that a great many more bales of futures are dealt in on the exchanges that there are actual bales of spot cotton. The reason I ask this question is because Senator Dial and others talk about there being perhaps 100,000,000 bales of future cotton dealt in. Now, give us just a graphic explanation of how that comes about.

Mr. NORMAN. Well, Senator, last summer, when I called on you here, I told you that I would write you a letter explaining very carefully the functions of the future market and its relationship to spot cotton, and I gave you a very lengthy explanation, but I am not going to burden this committee with a reading of it, because it will take too much time. But I will try to explain one or two points here that I think are rather important, and I would like to submit this as a part of the record, if it is agreeable to the committee.

Senator KEYS. That is perfectly agreeable. It will go into the record. You can explain what you want at this time.

Senator RANSDELL. Explain briefly what you wish to, and put the letter in the record in full.

(*The letter above referred to is as follows:*)

RELATION BETWEEN SPOT AND FUTURE COTTON MARKETS, DURING THE CURRENT AND PRECEDING SEASONS, EXPLAINED BY MR. E. B. NORMAN, OF THE NEW ORLEANS COTTON EXCHANGE.

NEW ORLEANS, LA., *October 11, 1921.*

Senator JOSEPH E. RANSDELL,
Senate Office Building, Washington, D. C.

DEAR SIR: I am inclosing herewith a chart which I have had prepared, illustrating the differences between the cotton future market and spot cotton prices which have prevailed during this and the previous cotton seasons. From this chart any layman should be able to get a very clear idea of the action of the future market, as compared with spot prices, both during a period of high prices and inflation and a period of low prices and deflation.

From the chart you will notice that during the season of 1919–20 the future prices of cotton were considerably lower than the extremely high prices prevailing for spot cotton. This was due to the fact that the purchaser, who, realizing the extremely high price of spot cotton was not willing to take the risk of buying the distant future months at the price of spot cotton, but would only buy provided he could purchase cotton for delivery in the future at a comparatively heavy discount.

When the market began to decline in the summer and fall of 1920 you will notice the line representing future prices came nearer to spot values and when the market

went below 18 cents the curved line representing future prices crossed the line representing spot values and, as the market continued to decline, you will note that the future line continued to advance further and further above the line representing spot prices.

It was perfectly clear to spot firms, who kept in close touch with the market, that the pressure to sell spot cotton in face of an extremely poor demand for spots and a comparatively large crop forced the price of cotton down.

The speculator, who then came into the breach thinking that prices had gone too low, began to purchase future contracts and force the future market away above the price of spot cotton thereby preventing an utter collapse and complete demoralization in the cotton trade. The speculator bought the market all the way down particularly after it struck 20 cents per pound. You will notice from the curved lines on the chart how the future market, after the 18-cent figure was reached, has been held consistently above spot cotton in the face of practically no demand for spots, a small consumption and a record surplus or "carry over."

This explanation, I think, fairly shows some of the functions that the speculator performs in the marketing of this vast commodity, this function is in fact price insurance. When the market is extremely high he will sometimes sell but when the market goes extremely low you can always depend upon him to buy, as it can be clearly shown that the speculator is more usually a buyer than otherwise.

During the past months of severe depression when there was no demand for spot cotton from Europe or from domestic mill large spot firms came into the market for spot cotton thereby preventing a much greater disaster in value and the only reason why they considered purchasing large quantities of cotton at a time when money was so difficult to procure and the demand for spots so unsatisfactory, was, that the speculator was absorbing an enormous quantity of future contracts at a premium over spots. These firms relieved the market of cotton that was being pressed for sale, thereby preventing a further decline in spot cotton and they sold future contracts as a hedge against these purchases and the speculator purchased these future contracts when no others would buy.

At a time when spot cotton was quoted in New Orleans at 11.50 cents and it was difficult to get purchasers, the cotton factors in this market, who held large stocks of cotton for their clients, principally farmers and country merchants, were able to sell future contracts; namely cotton for delivery during May against sales of May futures and cotton for delivery in July against sales of July futures at prices well above 12 cents. The results were most satisfactory to the farmers and merchants whose cotton was sold in this manner.

If the cotton factors had been unable to sell these future contracts thereby disposing of spot cotton which they had for sale they would have been forced to sell on the open spot market at whatever spot price they could obtain and, it is hard to estimate how low the spot market in New Orleans would have been forced.

This illustration of the relief afforded by the future market in New Orleans is applicable practically to every section of the cotton belt as the future market afforded an outlet for cotton at a time when there was practically no demand for spot cotton except that created by the demand for future contracts.

Cotton is regarded as the prime collateral of the South and this is due to the fact that any time in the day a purchaser can be obtained on the basis of futures. Quotations of the future market are telegraphed practically to every portion of the cotton belt and these quotations are an enormous help to the cotton farmers in the remotest part of the belt. Without these quotations it would be hard for the intelligent cotton man to conceive how to conduct a conservative business.

At times large cotton firms frequently purchase cotton where there is no assurance of profit when with the assistance of the future market they can protect themselves against loss. It is easy to realize therefore the small margins that the business is sometimes done on, especially during times such as we have been through during the past year.

Without the future market the conservative cotton firms would not consider purchasing spot cotton unless they felt assured of a large margin to protect them against the possibility of decline. The little farmer at some remote part of the belt would be uniformed as to dependable values and he would be at the mercy of the small cotton buyer in his locality who in turn for self-protection would have to buy extremely cheap to avoid possibility of loss.

Without future contracts the conservative cotton merchants would only buy spot cotton when they had a sale for it in the large domestic or European markets. Therefore it would be very difficult to conceive what would happen to the cotton market during periods of depression such as we have had during the past season when at times there was practically no demand at all except on the future boards.

Just as the speculator in future contracts performs a service in that he provides price insurance, so also does the small spot speculator scattered around buying a few bales here and a few bales there perform a distinct service.

As a rule you will find the small spot buyer, and particularly the small-spot speculator, will pay prices just as high as the representatives of the large firms, expecting the next day or shortly thereafter to find some purchaser at a higher price or expecting market to advance.

You will find, however, that the spot speculator always uses the future market as a guide, knowing that based on or off the future market he can depend upon getting a purchaser. Therefore it will be seen that the cotton speculator performs a distinct service, not depressing a commodity below its actual value, but in stabilizing prices and actually buying the market up when prices are cheap.

If future and spot speculators were eliminated the cotton business would thus be controlled by a few large firms, and during the heavy marketing season when large quantities of spot cotton are thrown on the market the purchasing power of these few firms would soon be exhausted, and there is no telling how low prices would decline. As it is now, the purchasing power is so vastly distributed that the control of values can not be held in the hands of a few.

We have as factors in the vast cotton trade, on the one hand, the conservative cotton factor, the conservative cotton merchant (who almost invariably uses the future market as insurance), the buying broker, the selling broker, the consuming markets, and, on the other hand, the more or less speculative merchant, the numerous small speculative spot buyers, and the scattered future speculators who may be found in any of the above-described classes. Those described secondly probably constitute 75 per cent of the whole cotton trade; they perform a function which must be recognized as most important. To withdraw from the market by a single act of legislation the price insurance which is afforded by the vastly distributed purchasing power afforded the market by this class of trader would be most dangerous and ill-advised. It would disrupt the very fabric of the cotton trade and destroy the foundation of an industry which has taken years and years to develop and perfect.

You can not eradicate speculation in cotton. You may destroy well-regulated speculation in future contracts, which is now conducted under the supervision of the Department of Agriculture and part of its machinery being afforded by this department of the Government, but, in doing so, you will cripple the cotton trade througout the entire world.

A thorough understanding of cotton trading and the universal use made of the future markets as an adjunct to the orderly handling and marketing of this vast commodity can not be assimilated in a day or a year. I venture to say that more spot cotton, by many million bales, is handled, bought, or sold on the basis of futures annually than is raised in the entire world each year.

The cotton buyer when he purchases 100 bales of cotton in September frequently uses the future market by selling 100 bales of cotton for delivery in October through a cotton broker. The buyer again uses the future market when he sells 100 bales of specific cotton for December delivery to a mill by purchasing, in the future market, 100 bales of cotton for delivery in October.

The mill frequently uses the future market when it sells goods representing, in raw material, 100 bales of cotton by buying 100 bales of cotton in the future market. The mill again uses the future market when it buys spot cotton at a fixed price from some merchant or shipper by selling and closing out the future contract which it has already purchased. This places the mill in the position of having the cotton purchased at a fixed price from the merchant and having its goods sold at a fixed price, but in the interim between the time the goods were originally sold and the time the cotton was purchased from the merchant the mill used the future market to protect itself against loss, in other words, as price insurance.

At the time that the merchant sold the 100 bales of spot cotton to the mill for future delivery if he did not have on hand 100 bales of spot cotton suitable he purchased 100 bales of futures as protection until such time as he could purchase the spot cotton required.

This merchant may then buy 100 bales of spot cotton from another merchant who in turn would use the future market by purchasing 100 bales future contracts to protect himself against an advance in the market until such time as he is able to purchase the specific cotton which he may require to fill his order. When he finally buys this specific 100 bales of spot cotton he sells the 100 bales of future cotton which he has purchased, thereby closing out the future contract,

This is the manner conservative merchants make use of the future market for price insurance, and it can be readily understood how frequently a future contract may change hands during a period of activity in the spot market.

When the exporter sells 1,000 bales of cotton by cable to a European buyer he buys 1,000 bales of future cotton to protect himself against an advance in the market until such time as he is able to purchase the specific cotton to be exported to fill his contract of sale. He may sell 1,000 bales of cotton for export, shipment to be made 100 bales a month for 10 months, in which case he frequently hedges his sale by purchases of future contracts until shipment is due when he sells his future contracts and at the same time purchases the specific cotton which he requires from another merchant. The other merchant frequently uses the future market by purchasing a similar number of bales on the future market as a protection against a rise in the market. This is price insurance.

On the other hand a European mill may sell goods representing, in raw material, 100 bales of cotton. If the mill is unable to purchase the specific cotton at the time of sale, which is frequently the case, it purchases 100 bales of cotton for future delivery in Liverpool, New York, or New Orleans, this transaction in futures being his price insurance, protecting the profit in the transaction. The mill then, at an opportune time, purchases the cotton, say from a merchant in Europe, at the same time selling the 100 bales of futures, which has served its purpose.

The merchant in Europe in turn buys 100 bales from an American exporter, or if he is unable to buy this specific cotton at the time, he immediately purchases 100 bales of future contracts which he uses as price insurance to protect himself against the 100 bales he has sold until such time as he is able to buy the 100 bales of specific cotton which he requires.

The exporter in America, when he sells the merchant in Europe the 100 bales of specific cotton, purchases 100 bales of spot cotton or 100 bales of futures as a hedge against the 100 bales sold, and this operation may be repeated several times.

The above explanation shows the manner in which the future market is utilized all over the world by the conservative trade as price insurance. It will be seen by the above that on 100 bales of cotton sold to a mill in Europe a number of 100-bale future contracts may be traded in against the purchase and sale of the specific cotton, depending upon the number of merchants who sell this 100 bales from one to the other before it reaches its final destination.

In the event that trading is very much restricted and only limited to specific transactions in specific cotton the so-called speculator would be eliminated and there would not be at all times a supply of future contracts and the result would be that the future market would automatically close. When the seller comes in the market for the sale of a future contract there must always be a purchaser and vice versa.

It is a well-recognized fact that the buyer makes a market. If you eliminate the cotton speculator, the majority of whom are buyers, you destroy a great, potential, and vastly distributed buying power which will leave the cotton market at times in a most helpless state.

It is not only in the future market that futures are traded in, and it is not only in the future market that basis cotton is bought and sold. One may buy from a mrechant in the interior 100 bales of basis middling cotton for delivery each month from September to December at a fixed price with differences at which grades other than middling are to be taken specified at the time of purchase. The seller frequently is given the right to deliver any grade from good ordinary up to strict good middling at fixed differences below the price of middling for the lower grades and above the price of middling for the higher grades. An enormous proportion of the cotton crop each year is sold basis middling. The purchaser of basis cotton usually sells to mills and merchants the number of each grade which he can reasonably expect to get.

Frequently a merchant will sell specific grades to a mill or for export and buy future contracts with the expectation of getting a large portion of the cotton he requires from the future contracts purchased.

Usually the grades that are received on future contract average about the same as the average of the grades on the market at the time. As an illustration of the use made of the future markets recently, in May 26,500 bales were delivered and received on New York future contracts and 24,300 bales in New Orleans. In July 38,800 bales were delivered and received in New York and 50,100 bales in New Orleans.

It is evident from the above that future contracts as now traded in are satisfactory to the purchaser and to the trade, otherwise it is certain that the purchasers of May and July contracts would never have received the quantity of cotton received on those months both in New Orleans and New York and at prices which at the time were higher than spot prices.

Yours, very truly,

E. B. NORMAN.

Mr. NORMAN. To give you an idea how the legitimate cotton purchaser makes use of the future contract over and over again on, say, 10,000 bales of cotton——

Senator RANSDELL. Now, that is the legitimate merchant?

Mr. NORMAN. Yes, sir.

Senator RANSDELL. Not the speculator?

Mr. NORMAN. The legitimate merchant, not the speculator. This is some of my own experience.

Senator RANSDELL. I understand.

Mr. NORMAN. If I had 10,000 bales of cotton——

Senator KEYES. You are not reading the letter?

Mr. NORMAN. No; I am not quoting from the letter. It practically says very much the same thing.

If I had 10,000 bales of cotton on hand in June, say, or last April, I sold 10,000 bales of July contracts against that as price insurance. That is 10,000 bales of future contracts that I dealt in. I could not sell the spot cotton to good advantage, so I bought back the July contracts and sold October contracts, 10,000 bales. That makes 20,000 bales dealt in.

Senator RANSDELL. On futures?

Mr. NORMAN. On futures. I could not sell the spot cotton satisfactorily, so I bought 10,000 bales of October future contracts and sold 10,000 bales of December future contracts. That would be 30,000 bales.

Senator RANSDELL. You mean when October came you were not satisfied with the market and you had to carry on your trade further?

Mr. NORMAN. Yes. Or, not necessarily when October came. I could do that earlier if I chose.

I could not sell the cotton satisfactorily, so I bought back the December contract and sold January contracts against it—future contracts all the time. That makes 40,000 bales so far handled on that 10,000 bales of spot cotton.

I then bought my January future contracts and sold March contracts against those 10,000 bales. That is 50,000 bales. Then I purchased my March contracts and sold May contracts against those 10,000 bales. That is 60,000 bales. Then I might purchase my May contracts and sell July contracts against it, making 70,000 bales.

Senator RANSDELL. Each of those transactions would be an insurance, and intended for that purpose?

Mr. NORMAN. Each of those transactions would be cotton insurance.

Now, there are other phases of the situation that I may explain. A mill in Europe—this is not quoting, exactly, from this letter, but giving the sense of it.

A mill in Europe might have an opportunity of selling goods requiring the use of 10,000 bales of spot cotton. Therefore the mill immediately, in order to be able to sell on as small a margin as possible, buys 10,000 bales of future contracts, say, in New Orleans or New York, which they do now very frequently.

Senator RANSDELL. The delivery being engaged, if I may add there, at the time they would actually desire to have the spots?

Mr. NORMAN. Not necessarily. They may buy the future cotton in any month that they want—it makes no difference—as insurance.

Senator RANSDELL. Yes.

Mr. NORMAN. After buying these future contracts they have insured their profit. They can figure a very small profit then, because their small profit is assured. Then it is necessary for them to look around to buy the particular cotton that they want. The mill may use Liverpool good middling, 28.29 millimeter cotton; therefore they will look around and try to buy this cotton as cheap as possible; but in the meantinme they are insured through their purchase of this 10,000 bales of future contracts. They will get in touch with the exporters in the United States by cable, and they will get offers from all over the United States for this Liverpool good middling, 28.29 millimeter cotton. Then when they have purchased the spot cotton from the exporter they will notify the seller or exporter on this side to fix the price on New York futures. The seller will buy on the New York future market 10,000 bales of we will say, July contracts from the broker who had originally purchased this contract for account of the mill. Therefore the mill liquidates their future contract, and they have a contract for 10,000 bales of spot cotton from the American exporter. Then the American exporter holds the 10,000 bales in future contracts which his broker has already bought from the mill's broker. The exporter holds this 10,000 bales of future contracts until he can buy this cotton scattered around the United States in 100-bale lots or 1,000-bale lots from this merchant or this shipper or that shipper. Whenever he buys this 10,000 bales of spot cotton from the interior merchant, the interior merchant then buys, or the interior merchants then buy 10,000 bales of future contracts in New York. The interior merchants get their brokers to buy the future contracts from the broker of

this big exporter. Then the interior merchants may buy this spot cotton from some other farmers or small merchants, and when they do that they sell 10,000 bales of future contracts at New York, protecting all their purchases of spot cotton. You can see the merchants together are long, sav, 10,000 bales of futures. When they buy the spot cotton from the farmer they sell out these futures, and are short the spot cotton to the exporter. You can readily see the number of times that the future contract can be traced in a single sale, on the original sale of goods that the mill in Europe makes.

Senator RANSDELL. Each of them perfectly legitimate and intended as an insurance every time.

Mr. NORMAN. Each of them intended as an insurance.

Now, I will tell you gentlemen right now—and I don't want to take up too much of your time—right to-day I will handle 10,000 bales of cotton under the Smith-Lever Law, against which there are sales of 10,000 bales of March cotton. I will handle that cotton practically without any margin at all. In other words, if the holder of this cotton would come to me and say, "Mr. Norman, I want to sell 10,000 bales of March cotton and certificate the spot cotton for delivery," I will say, "All right. Have your cotton certificates average middling." If he is a fairly responsible man I will say, "I will charge you a dollar a bale for handling that, and I won't require of you any margin whatsoever."

Senator RANSDELL. You mean a dollar a bale for handling, selling?

Mr. NORMAN. I will charge him a commission of $1 a bale for handling it. It just shows how close a margin the business can be done on with that price insurance. But unless we have the future contracts to sell against that 10,000 bales, I don't think I would loan him any more than 50 per cent.

Senator RANSDELL. Mr. Norman, in this case you speak of, where the mill in Europe buys 10,000 bales or desires 10,000 bales for its actual manufacture, then it buys 10,000 bales of insurance or future cotton to insure it?

Mr. NORMAN. Yes.

Senator RANSDELL. When it has arranged to get the 10,000 bales of spots it has no longer any need for the 10,000 bales of futures, so it sells that 10,000 bales?

Mr. NORMAN. Yes sir.

Senator RANSDELL. And the broker who is going to buy for it has need for the future cotton.

Mr. NORMAN. Yes sir.

Senator RANSDELL. So he probably buys that identical 10,000 bales?

Mr. NORMAN. He buys that identical 10,000 bales and the speculator does not come into the transaction at all.

Senator RANSDELL. Now, when that broker goes out to get the actual spots and arranges to get the spots, then the fellow from whom he gets his spots wants to be insured, too, naturally, that he can get those spots delivered, so that is another 10,000 bales, and before you get through with the transaction there have been several transactions of insurance to the extent of 10,000 bales each time. In other words, 40,000 to 50,000 bales of cotton have changed hands, and they talk about the futures being 40,000 to 50,000 bales, but it is simply a matter of insurance, perfectly legitimate, and there has been no speculation in the transaction at all?

Mr. NORMAN. There may be no speculation in the transaction at all.

Senator RANSDELL. I am speaking of absolutely business transactions, where there is no element of speculation. That is correct, is it not?

Mr. NORMAN. Yes, sir; that is correct.

Senator RANSDELL. Of course we all know that there are speculators also on the exchanges, but in many transactions which are doubled up again and again and again and again they are used solely and wholly for insurance?

Mr. NORMAN. Yes, sir; absolutely.

Senator RANSDELL. I wanted to make that perfectly clear, Mr. Chairman, because it is not generally understood.

Mr. NORMAN. Now, there is another point. This is very important. Senator Dial wants to reduce the number of grades to three or five, or whatever the case may be. I would like to explain that practically all of the cotton sold in Texas, Oklahoma, and Arkansas—well, I will say the great majority of cotton that is sold in those States—is sold basis middling.

Senator RANSDELL. That comes pretty near being half, too, doesn't it? More than half of the entire cotton.

Mr. NORMAN. I think so, in those States. I would not say positively, but I will say it is an enormous proportion, and the seller has the right to deliver as many as twenty grades of cotton against this basis middling sale that he makes. Now, this is spot transactions that I am talking about, and not future transactions. The seller

prefers, naturally, to make a sale of spot cotton, basis middling, because it allows for certain latitude. In other words, he can deliver all the cotton he has bought that day against this sale. The buyer prefers it because he has use for the majority of these grades that are delivered to him at the difference between the values; in other words, at the commercial differences. If you were to pass a law prohibiting the farmer from selling a basis middling contract, I think you would have a delegation of farmers coming up here to Washington that would keep you busy for two or three weeks.

Senator RANSDELL. Mr. Norman, you have explained some of the general functions of the exchange. Now, won't you state briefly your particular objections to the pending bills? You have covered the matter in a general way, but I wish you would point out your specific objections to the pending bill.

Mr. NORMAN. I contend that if the Dial bill is passed it will be impossible to carry on a business in future contracts.

Senator KEYS. Now, let me interrupt you. In referring to the Dial bill you are referring to his first bill and not to the second, or to both?

Mr. NORMAN. To both, because I contend that any further restrictions in the deliveries of cotton on contracts will make a contract that will not function properly.

Senator RANSDELL. It would practically destroy the exchange, in your judgment?

Mr. NORMAN. It would destroy the buying and selling of future contracts.

Senator RANSDELL. And, as you have explained before, those are necessary to the proper functioning of the cotton business?

Mr. NORMAN. Gentlemen, if the buyer of a future contract were permitted to name two grades for delivery on this contract, naturally he would name the two grades that were hardest to procure. He would pick out middling fair and strict good middling. I venture to say that last year I doubt if you could have gotten together 300 bales of middling fair in the South. Now, a man does not require any stretch of the imagination to know that the firm that would buy 2,000 bales of cotton on future contracts, demanding strict good middling and middling fair would corner the market. So naturally nobody would sell it, because you would have a condition where you would have no buyers and no sellers.

Senator RANSDELL. Do you consider that the restrictions provided in the existing law, the Smith-Lever bill, are about as fair as you can safely go and still do business on the cotton exchanges?

Mr. NORMAN. If you are going to be fair to the farmer and fair to everybody, it seems to me——

Senator RANSDELL. The mill and everyone else.

Mr. NORMAN. It seems to me the object of any laws of the United States should be to be fair to both the buyer and the seller. If you restricted the number of grades on future delivery the farmer would not be able to deliver a hundred bales of cotton on contract because his cotton does not run in even grades. It may run from low middling to good middling.

Senator RANSDELL. The farmer produces all the grades which are provided for in the Smith-Lever bill, does he not?

Mr. NORMAN. He may produce all those grades, and he may produce some a little lower, but those are not so numerous, and it would not hurt to leave those out. Personally, I am not in favor of putting in strict good ordinary; nor permitting the delivery of strict good ordinary, because strict good ordinary is a grade that is not very plentiful, and sometimes the price is nominal and it is impossible to determine the honest difference between strict good ordinary and middling; but with low middling as a commercial grade, that is traded in all the time; you can always determine the honest difference between low middling and middling. By keeping the differences honest and correct, you have an ideal contract.

Senator RANSDELL. The Smith-Lever law, if I may ask, Mr. Norman, was passed after a great deal of study, investigation, many hearings and arguments by representatives of the various cotton interests of the South, was it not?

Mr. NORMAN. Yes, sir.

Senator RANSDELL. And generally recognized, so far as you understand the business, as being satisfactory?

Mr. NORMAN. Entirely satisfactory.

Senator RANSDELL. To most of the people in the South?

Mr. NORMAN. To practically all those that trade in future contracts.

Senator RANSDELL. Is it fairly satisfactory to those who produce cotton?

Mr. NORMAN. I think it is eminently satisfactory to those who produce cotton, because they can deliver practically whatever they make at honest differences, and the buyer is not at a disadvantage, because he gets the various grades at honest differences as compared with middling.

Senator RANSDELL. Let me ask you this: Last year, when the agriculture was so deflated, how did cotton hold up as an agricultural product on which there were considerable transactions on the exchanges, with other agricultural products which were not dealt in on exchanges, for instance, such as sugar and rice and hides and meats of various kinds? Did the exchanges cause it to go down very materially, or did it tend to hold up the price of cotton?

Mr. NORMAN. The pressure of spot cotton was responsible for the market going down. It was the pressure of spot cotton on the market which was responsible for the future market going down, and no demand for spot cotton. Hides, I understand, went so low that you couldn't practically sell them at all.

Senator RANSDELL. It would not pay to skin an animal if it died on the farm, so I was told by a number of people. You couldn't get enough for it to pay for skinning it.

Mr. NORMAN. Rice went down so low that it practically drove the rice farmers in Louisiana out of the business. As Senator Ransdell probably knows, they suffered terribly.

Sugar went down a long way. There is a contract market for sugar in New York, but it does not seem to function so well.

Senator RANSDELL. In your opinion, Mr. Norman, did cotton, which was dealt in on the exchanges, go as low in proportion as some other agricultural products which were not the subject of future contracts?

Mr. NORMAN. I don't think that cotton did, Senator, and I contend that if you destroy the insurance that we have in the future contract market, you will destroy the collateral value of cotton. In the same way on the New York Stock Exchange on stocks that are traded in on the New York Stock Exchange you can borrow from the banks closer to the value of those stocks. In other words, within 10 or 15 or 20 per cent of their value, whereas you take stocks that are not traded in on the New York Exchange, sometimes you have difficulty in obtaining 50 per cent of their value at a bank. And I contend, just as I have illustrated to you a few minutes ago, that I would be glad to take a thousand bales of cotton for a customer, provided it is certificated, and provided future contracts are sold against it. I would take that cotton from almost anybody on a margin of 3 to 5 per cent and charge a dollar a bale commission for handling, whereas if it is not hedged I would rather not handle it at all.

Gentlemen, I have a statement that I have prepared regarding the collateral value of cotton, and if you think this will interest you—it is not very long—I will be glad to put it in the record.

Senator KEYES. Very well.

(The statement above referred to is as follows:)

COTTON A PRIME COLLATERAL WITH THE CONTRACT MARKET PROPERLY FUNCTIONING.

With the contract market properly functioning, cotton stored in a bonded warehouse is immediately regarded as a prime collateral. On the tenderable grades, between 80 to 90 per cent of the value can be obtained from the banks and it is sometimes possible to obtain a loan of practically the full value of the cotton.

Quotations being obtainable at any time during business hours, the value of tenderable grades can be determined immediately, for this reason the cotton business has been transacted in the South during the past 39 years on a smaller margin than any other commodity due to the facilities of the contract market which afford price insurance.

Should the contract market be taken away from the trade or restricted to a point where it is no longer flexible, the collateral value of cotton would be reduced to such an extent that only very wealthy firms could engage in the buying and financing of cotton. The purchasing power of the small cotton buyer, scattered throughout the South would be eliminated. Individually his resources are small but collectively his purchasing power is potential and if this enormous purchasing power of the market is to be eliminated a great danger arises for the cotton farmer. There are thousands of people throughout the South interested in cotton who are always ready to come into the market and buy whenever they consider the market too low. Restrict the functioning of the contract market and you kill this purchasing power.

As sure as you pass restrictive legislation which has been proposed you destroy the sources from which accurate information regarding prices is distributed all over the South. You kill the potential buying power of the thousands of small buyers engaged in the buying of cotton throughout the South and thousands of others who are ready to purchase contracts when cotton is offered too cheap and last but not least, you immediately reduce the collateral value of cotton on which loans can now be obtained of from 80 to 90 per cent of its value to a commodity on which only about 50 to 60 per cent will be obtainable. When you do this you immediately

reduce the price of cotton, as a purchaser will always pay more for a commodity which he knows he can sell and for which there is a dependable market than for a commodity whose value is not so easily determinable or only nominal.

It may be surprising to know that there are many firms engaged in the cotton business who will sometimes buy cotton on which no profit can be calculated but on which, due to the fact that they have the use of the contract market as insurance, there is little risk being taken. During the past summer when spot cotton was such a drug on the market firms with large resources, bought hundreds of thousands of bales of spot cotton because it was possible to insure their purchases through the sale of contracts in New York, New Orleans, and Liverpool. If these firms had been deprived of the use of the contract market, which afforded price insurance, it would be hard to figure how low the price of cotton would have gone during that period last summer when there were thousands upon thousands of bales of spot cotton for sale without any buyers. The same thing probably would have happened to the cotton market as happened to the hide market last year when those who held large stocks of hides and could not find a purchaser at any price were forced practically to give them away.

The records of the cotton exchange will show that when there is no demand for spot cotton the future market is consistently held higher than spot cotton. This is conclusive evidence that future contracts in this country in times of stress assist in holding up the entire cotton market. It is a mistaken idea that the cotton merchants and cotton exchanges are interested in seeing low-priced cotton; on the contrary, every one engaged in any department of the cotton industry knows that it is to their own best interests that cotton is high rather than low, as the margins of profits are larger, whereas on low-priced cotton at times it is hard to figure a profit.

Now, to return to the value of cotton as collateral with the future market properly functioning, as compared with its collateral value without the use of the future market. I would like to call attention to the fact that the collateral value of the majority of stocks traded in on the New York Stock Exchange is about 80 to 90 per cent, whereas on stocks which are not listed on the New York Stock Exchange and are not being continuously traded in it is sometimes impossible to secure a loan from the banks. Where there is a dependable market for any commodity it will always bring closest to its real value. I hate to predict what will become of cotton without a responsible contract market properly functioning. No intelligent quotation could be obtainable, and many banks would refuse to loan more than 50 per cent of the nominal value.

Stocks that are most readily salable and for which there is a broad market always bring nearer their true value; likewise cotton that is being traded in continuously is one of the most easily sold commodities of the South. The margin of profit in normal times which the merchant makes on the cotton he handles is ridiculously small as compared with other commodities. This is due to the fact that there is less risk in handling cotton, due to the insurance which can be obtained at any time during the business day, through making use of the contract market as a temporary hedge pending the time that the cotton can be resold. The broader the market for cotton the greater you reduce the risk of handling and with the insurance feature of our contract market the greater price the buyer can pay. The narrower the market the greater you increase the risk and the greater you reduce the price that the purchaser will pay. If you eliminate the insurance feature of a broad contract market, you automatically reduce the price that any conservative firm will pay for spot cotton, you eliminate the competition of small buyers scattered throughout the South, and you defeat the very ends which you are trying to obtain.

It may be interesting to know that most of the spot cotton bought in the interior is bought basis middling; in other words, the seller has the privilege of delivering any grade that he buys at a specified difference which is very similar to the future contract. In some of the primary markets it is difficult to buy even running grades as it is usually much more satisfactory to the seller to deliver all the grades he buys rather than selections. It is customary in the interior to take as much as 20 grades on purchases of basis middling cotton, whereas the future contract as at present constituted provides for the delivery of only 10 grades.

A large proportion of the cotton delivered on contract last March and May was tendered by cotton factors for account of farmer customers and small merchants around the country. The reason that this was done was that it was almost impossible at the time to sell spot cotton, yet future contracts could be sold on which low middling and above could be delivered and the prices obtainable for the future contracts were as much as 50 to 60 points higher than was obtainable for spot cotton. At times last year there were thousands of bales of cotton received on contract when the future market was at a premium over spot cotton.

For the good of the country let business alone for a while, leaving it on its own resources, as business built up without continuous legislation is built on a stronger and more permanent foundation. The constant fear of legislation which places the entire nation under a cloud of uncertainty is slowing down the progress of the country.

Mr. NORMAN. Because it has a very important bearing. There are also some resolutions of various cotton exchanges throughout the South.

(The resolutions above referred to are as follows:)

STATEMENT OF MR. ED. S. BUTLER, PRESIDENT OF THE NEW ORLEANS COTTON EXCHANGE, IN OPPOSITION TO SENATE BILL 385, BY SENATOR DIAL, OF SOUTH CAROLINA, TO AMEND SECTION 5 OF THE COTTON FUTURES ACT.

Senator Dial has introduced a bill (S. 385) to amend section 5 of the United States cotton futures act, approved August 11, 1916, as amended, which amendment provides that unless cotton of the basis grade (middling) is tendered in settlement of such contract, the buyer shall have the right to demand that one-half of the contract to be delivered shall be delivered in equal quantities in two grades to be specified by him, and that the seller shall have the right to tender one-half of the amount deliverable under the contract in equal quantities in two grades to be specified by the seller.

This bill, which is introduced as a regulatory measure, will so restrict trading in future contracts as to ultimately abolish future trading in the American exchanges. The effect of the enactment of this bill into law will be to create a more specific grade contract than the present section 5 contracts which are the contracts used by the trade as interim or insurance contracts.

The present law permits the trading in specific grade contracts under section 10, but such contracts are never made across the future ring, although one is permitted to conclude such a contract upon the exchanges if possible. This section 10 contract is infinitely stronger than Senator Dial's amendment, but it was never intended and has never been used as a price insurance or interim hedge contract but is traded in largely by producers, merchants, and spinners trading in spot cotton or on to-arrive terms under the rules of the exchanges and the rules and regulations promulgated by the Bureau of Markets.

Future trading was established on the cotton exchanges to protect two elementary risks in the cotton business beyond the power of man to absolutely control, namely, variations in the size of the yearly crop and of the amount of cotton the world would yearly consume. The present future contract is the result of 40 years of experience modified by recent legislation. After hearing of representative committees of the the cotton trade before the Committee on Agriculture of the United States Senate, the United States cotton futures act was enacted on August 18, 1914, subsequently reenacted with amendments on August 11, 1916, and further amended on March 4, 1919, with the result that we now have a contract that is fair alike to buyer and seller and probably sufficiently comprehensive to include the bulk of the cotton grown.

It is not contended by this that the future contract is a perfect one, but it is the most economical and best price insurance which men of every nationality engaged in the cotton business have been able to devise to insure an initial profit or minimize a possible loss. As pointed out above, Congress also has not been lax in its attention to cotton futures.

Under the law as it now stands, the present contract has functioned well, notwithstanding the abnormal postwar conditions, and it has maintained a close relationship to spot cotton. While this close relationship between spots and futures has apparently not been shown every day (because premiums and discounts in forward deliveries are more or less psychological) it is none the less true that the influences surrounding the spot-cotton situation do and have always governed cotton-future contracts.

The records of last season will show that while for a time spot cotton was practically unsalable in the spot markets, over three hundred thousand bales were delivered on future contracts in New York and New Orleans, at prices much above the price obtainable in any spot market at the same time for those qualities of cotton which would pass the contract; that is, from low middling to middling fair.

The two great exchanges of New York and New Orleans do not control all of the future business of the world but have to compete with Liverpool and Havre whose contracts are to a great extent identical with the exception that the nomenclature of their grades, which are equivalent to ours, is different. To restrict us would be to give an advantage to Europe whose broader and more comprehensive contract would soon attract all of the business and leave our business to shrink and dry up.

I can not see any other result from Senator Dial's amendment. Possibly the Senator may be of opinion that were his amendment enacted into law that the price of cotton would be benefited or that speculation would be entirely eliminated. In the first

instance, I am sure he is absolutely mistaken. In the second place, it would create a condition which is not at all to be desired. Suppose, to bring the Senator's proposition to an irreducible minimum, that the exchange members could be forced to deal exclusively in a contract that called for middling only, nothing above nor below. Aside from the fact that the supply of the middling grade is necessarily limited and therefore few would be willing to sell for fear of a squeeze, would that help the price of the other grades, or the market as a whole? Would that enhance the value of low middling or strict middling or good middling? Would it not be possible to force the middling price by cornering, say, to 40 cents when higher grades would sell at 30 cents and lower grades at 10 or 15 cents?

As to reducing speculation in cotton, I quite concede that same would be accomplished, as no investor or buyer would find a seller except at a substantial premium and as there must be a seller for every buyer and vice versa, the number of buyers must necessarily be reduced.

The report of thee Committee on Agriculture on the Smith-Lever bill, Sixty-third Congress, second session, H. R. 765, says of the functions and ecomomic uses of the exchanges:

"It is the opinion of the committee that the abolition of the cotton exchanges would result inevitably in the monopolizing of the entire cotton crop into the hands of a very few powerful interests with the force and means to fix the price at which the farmer would be compelled to sell his cotton. Fully 75 per cent of American produced cotton leaves the hands of the producer during the four months of September, October, November, and December. It takes no stretch of the imagination to foresee how utterly helpless the farmer, as a class, would be in his present disorganized condition as a factor in fixing the price of his own products, as against the organized genius and money of the spinners and powerful spot cotton dealers.

"The fundamental principle of trade is that the buyer always buys at the lowest possible price while the seller always sells at the best possible price to be had. With this principle in mind, and with the economic conditions surrounding the southern farmer not overlooked, it does not take a prophet to foretell what must be the result of a contest between the farmer on the one hand and the spinner and big spot cotton dealer on the other in a struggle for fixing the price of cotton. The farmer can not hope to survive in such an unequal contest. He would be forced to peddle his cotton upon the streets and to take such prices for it as had been agreed upon, secretly, perhaps, by these big interests. He would be absolutely at their mercy without even the law of supply and demand to aid him.

"Any legislation, therefore, which eliminates from the cotton trade, the element of legitimate speculation and legitimate speculators, must, in the opinion of the committee, result disastrously to the producer, especially at that season of the year when the bulk of the crop is moving from him into the channels of commerce. Cotton exchanges properly regulated in their operations, in that they afford opportunities for legitimate speculation, may be made to be of real benefit to farmers, merchants, and spinners. The legitimate speculator, operating through the exchanges, is the only buffer standing between the helpless producer and the powerful buyer of his product."

I trust, Mr. Chairman, this will sufficiently demonstrate our position in the premises.

Respectfully submitted.

ED. S. BUTLER,
President New Orleans Cotton Exchange.

STATEMENT OF MR. ED. S. BUTLER, PRESIDENT OF THE NEW ORLEANS COTTON EXCHANGE IN OPPOSITION TO THE BILL 399 BY SENATOR CARAWAY OF ARKANSAS, TO PROBIBIT THE SALE OF COTTON FOR FUTURE DELIVERY UNDER CERTAIN CONDITIONS.

Senator Caraway has introduced a bill (S. 399) which, in short, prohibits the sale of cotton for future delivery unless the seller states that he has the intention to deliver and that he actually owns or has contracted for the ownership of the cotton or that the cotton is in actual course of growth on land owned, controlled, or cultivated by him; and further, that in order to convey a message by telegraph an affidavit must be filed with the telegraph, telephone, or wireless telegraph company that he intends to actually deliver or receive such cotton, etc.; further, penalties are provided for violations of this law.

In order to discuss this bill, and to realize its effect, it is necessary to analyze the various factors which go to make up a future market. The future contract is composed of the following character of trades:

1. Buying of hedges against sales of spot cotton;
2. Buying for investment or speculative account;

3. Buying for straddle account; that is, buying in one market and simultaneously selling in another; or buying one month in one market and selling another in the same market;
4. Selling of hedges against purchases of spot cotton;
5. Selling for speculative account;
6. Selling for straddle account, etc.; that is, selling in one market and simultaneously buying in another or selling one month in one market and buying another in the same market.
7. Buying by spinners as a hedge against later purchases of spot cotton to insure against a possible advance in prices.

All of these elements of trade are found absolutely necessary in order to assure the producer and consumer the best insurance through the medium of the future market while marketing and finally distributing the cotton crop and the manufactured article.

Buying of futures as a hedge against forward sales has long been recognized by the trade as the cheapest and safest policy, and is particularly useful to the exporter to protect him against his forward sales of cotton, as well as the millman against his forward sales of manufactured goods, should an advance in raw cotton prices occur; the necessity of selling ahead being essential to the cotton trade. It is recognized as the only conservative business method to insure a profit or moderate loss, as well as to permit a large volume of business to be done forward.

Hedge selling against purchases of actual cotton is just as necessary and permits the merchant to carry large stocks of cotton, particularly as it is necessary for him to accumulate stock when the bulk of the cotton crop is marketed from August to December and insures him against sudden or permanent declines in the market. Hedging has become recognized the world over and is insisted upon by all conservative banking interests.

The necessity of speculative or investment buying is well appreciated. The bulk of the cotton crop is marketed during five months. Often the market is flooded with cotton during this period, and as the price often declines owing to the fact that offerings are larger during that period than trade requirements, the speculator performs the useful function of buying the surplus of the hedge selling during that period, thereby distributing the losses, if any, among a great many instead of the trade shouldering same. This was particularly true last year. What would have become of the country, with the price of last year's cotton crop shortening from over $2,000,000,000 to less than $1,000,000,000 in the first three months of last season, if the speculator and the hedge buyer had not borne the brunt of the decline? Surely it was not the trade; there was during that time a lack of buyers and trade demand to absorb the daily offerings of cotton.

Speculative selling is just as essential, as in many years, at periods, trade demand is larger than the offerings, due to various causes. The speculative seller expecting ultimate profit supplies the trade during the period with contracts, at times profitably and often with a loss.

STRADDLE BUSINESS, OR WHAT IS KNOWN AS ARBITRAGE BUSINESS.

The tendency of this business is to keep the markets as nearly equal in their relation to each other as possible; otherwise the individual market would be governed entirely by existing local conditions instead of world conditions. This character of trading is also necessary between months in the same markets, as conditions temporarily cause more or less demand for one month than the other and without this equalizing method we might at times have disastrous discounts or unnecessary premiums, which are both ultimately detrimental to the cotton trade. The arbitrage business in normal times is large and done mostly for small profit. Extreme premiums or declines are purely psychological and are of short duration.

There are only two people in the cotton business whose interests are diametrically opposed. One is the farmer, whose object is to secure the highest price for the result of his labor; the other is the consumer, whose object is to buy his raw material as cheaply as possible. All intervening interests work on fixed commissions or take their chances as to buying or selling profitably. The legitimate speculator, operating through the medium of the exchanges, is the only buffer between the farmer and the powerful buyer and consumer who can readily organize while the farmer can not; and it is easy to see that the farmer can not hope to survive in such an unequal contest if the speculator is eliminated, whether he be a long buyer or short seller in the future market. The presence of the speculator in the exchanges, always ready to buy or sell, has undoubtedly served to relieve the trade of the risk of violent fluctuations in value. Speculative markets on the cotton exchanges enable the farmer at any season of the year or any day of the season to find a ready sale for his cotton.

While there may have been at times unwise speculation on exchanges, the exchanges have been useful in stabilizing prices, in furnishing correct quotations of the market value of cotton, and in maintaining a reasonable parity between futures and spots, thereby posting the farmer, the merchant and the banker, and the consumer as to prices of cotton daily.

Much has been recently said of the short seller, even going so far as to suggest the elimination of short selling. The elimination of short selling restricts the speculative buying power and would make a lopsided market, allowing only buyers to go into the market, which might temporarily establish fictitious values and cause the accumulation of a long interest which, upon liquidation, would probably force a continuous decline until all investors or buyers had liquidated. Price insurance through the future contract would thus be destroyed and a chaotic condition exist in the trade, and as a result the market would be at the mercy of the spinner.

On the 13th of November, 1918, the cotton distribution committee of the War Industries Board issued an order prohibiting speculative short selling, which went into effect and was rescinded on December 9, 1918. During that period, contrary to having the effect of stopping the decline in cotton, it is noted from the quotations that middling spot cotton in New Orleans, as of date November 13, was 29.38 cents per pound; whereas, on December 9, it had declined to 28.50 cents per pound, proving conclusively that in his instance the law of supply and demand functioned regardless of the artificial restrictions imposed upon the future cotton market and cotton declined nevertheless. It is true that during that period futures advanced temporarily but finally lost 5 points for December cotton.

I am of the opinion that the order authorizing the restriction was rescinded in such short order because it had proved a failure.

Many other commodities and articles which were not protected by a future market during that year declined as much or more than cotton and during the decline there were periods when these articles could not be sold at all, the difference between sales being many cents per pound; whereas we were able to hedge cotton continuously during the decline at almost every hundredth part of a cent.

I hold no brief that the present future contract is a perfect one, but I do say that it has functioned well regardless of the abnormal war and post-war conditions and has been an economic and insurance benefit to the cotton trade even during this season of distress and has for many months offered the best price obtainable for cotton in the world, the near position selling at a premium over the price obtainable for cotton on the spot markets, thereby indicating that the continuous offers of spot cotton at lower prices caused the future market to decline notwithstanding the effort and strong resistance which it offered to the decline.

It must be borne in mind that the American exchanges do not control entirely the trading in future cotton, which is also traded in upon the great exchanges of Liverpool and Havre, whose contracts are practically identical with ours, except that their grades are called by different names. Senator Caraway's bill would prohibit the trading between these markets and ours, our contract under his bill being entirely different and restricted, and the business would gradually drift to Europe and the price of cotton be controlled by them, our market being traded in entirely by spot holders of cotton and subject entirely to local conditions.

The future contract was inaugurated as an interim or insurance contract, as stated above, and the protection and safety afforded against fluctuations in raw cotton by the future hedge enables the banks to lend large sums upon reasonable margin to all parties in the cotton trade, thereby enabling a large volume of business to be done. It has also opened the cotton market of the world to the public and, as stated above, the speculator or investor performs a useful service. But the Caraway bill would entirely eliminate him, as he must be the owner or have cotton under control before he can participate in a future contract.

Right here it may be well to say that an exporter, unless he actually bought cotton, could not sell cotton forward, even abroad, under this bill.

Above I have referred to the elimination of short selling and its effect. Senator Caraway's bill eliminates the short seller and, as said before, naturally limits the amount of buyers, as for every buyer there must be a seller. In brief, Senator Caraway's bill would close the American future markets, revolutionize the cotton trade, and destroy the present economic and insurance features enjoyed by the trade through the future market.

In periods of extraordinary demand or bountiful supply, both of which cause violent fluctuations in prices but in opposite directions, there is always a good deal of agitation in America for destructive or regulatory legislation, as the future board prices visualize strongly the advances or declines in the market, and those who are uninformed as to the economic and insurance benefits of the future market to the cotton trade cry out

for legislation both State and National. To the cotton merchant, the future market eliminates the speculative risk and hazards of the cotton business and is an economic factor of safety to the entire cotton industry.

We who have our all invested in the cotton trade are satisfied with the present future contract. It is the result of many years of careful thought by the best brains the cotton trade has produced, as well as by legislative attention, and I wish to quote our attitude as expressed in an article in a recent issue of the Cotton and Cotton Oil News, of Dallas, Tex.:

"It is refreshing to note the attitude of those who understand the operation of the legitimate exchanges compared to the wild charges and hurtful actions of men who do not understand the functions of the grain or cotton exchanges. At a recent banquet at the Hotel Cecil, in London, to the Royal Grain Commission, Sir Alan Garrett Anderson proposed 'the grain trade' and said the essential functions of the Government were to protect and help trade, but not to take it in hand. The Government's job was to keep the ring clear and let traders do it themselves. By the miracle of private enterprise and individuality, our Nation had become great. By a repetition of that miracle we should climb from the valley of shadows in which industry was to-day.

"What a wonderful precept for our national lawmakers, who, no doubt mean well, but always do that which results in distressing losses to those they seek to assist. Why not let well enough alone and help instead of hindering?"

Gentlemen, if you enact Senator Caraway's bill into law, you will create a condition such as existed at the outbreak of the war, in 1914, when the exchanges were forced to close for three months. I would like to file with the committee copies of extracts from newspaper articles regarding the demand to reopen the cotton exchanges.

Respectfully submitted.

ED. S. BUTLER,
President New Orleans Cotton Exchange.

RESOLUTIONS OF VARIOUS SOUTHERN COTTON EXCHANGES OPPOSING THE PROPOSED LEGISLATION TO AMEND THE COTTON FUTURES ACT.

SAVANNAH COTTON EXCHANGE.

SAVANNAH, GA., *February 7, 1922.*

Whereas the board of directors of the Savannah Cotton Exchange is advised that a subcommittee of the United States Senate Agricultural Committee will conduct a hearing on February 13 and 14, 1922, in Washington, D. C., on Senate bill 385, introduced by Senator Nathaniel B. Dial (South Carolina); also Senate bill 399, introduced by Senator Thaddeus H. Caraway (Arkansas); and

Whereas the Dial bill seeks to provide that middling cotton shall be delivered on a future contract or not more than two deliverable grades of equal quantities; and

Whereas the Caraway bill would prevent any person or organization from sending any communication by telegraph or otherwise, in any direction, relating to a contract of cotton for future delivery, unless such person or organization supplies an affidavit that they are growing or actually own such cotton and intend to deliver same on such future contract; and

Whereas both these bills if made a law will practically eliminate all legitimate hedge business in the future markets and thus place cotton dealers, manufacturers, and growers in a serious predicament: Therefore be it

Resolved by the board of directors of the Savannah Cotton Exchange, in special meeting assembled, That a delegation consisting of two members of this exchange be sent to Washington to be present at the scheduled hearing, with authority to vigorously oppose both bills, believing that the enactment of same will seriously impair and jeopardize the entire cotton trade of the country.

Attest:

W. H. TEASDALE, *Secretary and Superintendent.*

GALVESTON COTTON EXCHANGE.

At a meeting of the board of directors of the Galveston Cotton Exchange and Board of Trade held on February 6, 1922, the following resolution was unanimously adopted:

Resolved, That we, the members of the Galveston Cotton Exchange and Board of Trade, being thoroughly familiar with the terms, conditions, and practical operation of the present future contract as is now in use by the New Orleans and New York cotton exchanges, do hereby thoroughly and strongly indorse said contract as being fair, equitable, and just.

Furthermore, realizing that the present contract is the outgrowth of many years of practical experience in the cotton business, we are strongly of the opinion that the terms and conditions of said contract are such as are best adapted to the safe, legitimate, and practical operation of the cotton business and kindred industries.

Furthermore, it is the unanimous sense of this meeting that we strongly oppose any material change in the future contract now in use in the New Orleans and New York cotton exchanges.

Furthermore, we unqualifiedly oppose the passage of the Dial bill (S. 385) or the Caraway bill (S. 399), for should both or either of these measures be enacted into law the result would be ruinous to the cotton trade and closely allied industries of the world by placing the cotton business on an unsafe, unsound, and speculative basis.

And, furthermore, we view with grave concern the far-reaching, detrimental, and ruinous effect that the enactment into law of either of these measures would have, not only upon the cotton trade but upon all lines of industry, and particularly throughout cotton-raising States where the growth and marketing of the cotton crop play such an important part in the economic welfare of the United States.

MOBILE COTTON EXCHANGE.

MOBILE, ALA., *February 8, 1922.*

It is the unanimous opinion of the Mobile Cotton Exchange, representing entirely spot-cotton dealing, that no further legislation restricting cotton trades, either spots or futures, be enacted,

By order of the board of directors.

J. B. HARRIS, *Vice President.*

EXCERPTS FROM THE PUBLIC PRESS SHOWING THE WIDESPREAD DEMAND THROUGHOUT THE COTTON-PRODUCING STATES AND ELSEWHERE FOR THE REOPENING OF THE NEW YORK AND NEW ORLEANS COTTON EXCHANGES.

[Pearsall's News Bureau, New York—Sept. 8, 1914.]

SAN ANTONIO, TEX., *September 4.*

To protect against immediate financial stress such cotton growers as are unable to hold their staple, the San Antonio Chamber of Commerce to-day launched a campaign having for its object the opening of all cotton exchanges in the United States.

The first move was the sending of telegrams to the directors of cotton exchanges in New York, New Orleans, and other markets and to chambers of commerce throughout Texas.

Following is the text of the communication to the Texas commercial body:

"We believe that immediate opening of cotton exchanges for new business is necessary to establish a market and secure uniform prices. Cotton is selling in places as low as 6 cents, which we think much less than the market would be. Lack of knowledge of prices is causing heavy loss to farmers and small merchants. Will you give immediate active assistance by telegrams to New York, New Orleans, and other exchanges urging immediate opening?"

[San Antonio Express, Sept. 6, 1914.]

The movement to have the cotton exchanges, that closed on account of the European war, reopen for new business only might also include reopening of some exchanges closed by what many cotton men regard as unwise legislation. It is pointed out by the president of the San Antonio Chamber of Commerce that unsophisticated farmers are imposed upon because there are no quotations on cotton, and therefore they have no way of knowing the market value of the staple. When the cotton exchanges were in active operation the crop movement, statistics, and quotations of all the important markets of the world were posted on blackboards and freely given to the public through the daily newspapers and otherwise. The cotton grower had no trouble whatsoever in keeping abreast of the cotton movement, the cotton in sight at the ports and at interior towns, the surplus carried over from the previous season, and the probable size of the current season's yield and demand for consumption. All this information, whether gathered by statisticians of the Government bureau or by experts employed by the cotton exchanges themselves, was closely followed by the public, and the variations in conditions, by which market prices of spot cotton and contracts for future delivery were affected, was as much the public's as exchanges'. The "futures" quotations indicated expert opinion and speculation as to probable supply and demand which, in the main, regulates the market depsite bull and bear movements which temporarily boost or depress the market to the benefit or hurt of

the speculations, according to circumstances. It has been the opinion of operators in the cotton market, both buyers and sellers, as well as of some of the most prominent planters, that speculation is cotton futures gave a support to the spot market which was essential to the maintenance of spot quotations; and that the influence and effect of the exchanges, in reflecting conditions everywhere, at home and abroad, was to preserve the equllibrium of the markets and to keep the producer as well advised as to the market value of his product in New York, Liverpool, San Antonio, or elsewhere as were the traders and speculators. But the exchanges were charged with gambling, or encouraging gambling in cotton futures, and prohibitive legislation put the future dealers in Texas out of business. There are varying opinions as to whether that was wise legislation, and whether Texas cotton growers would now be selling their product for what they can get for it in a pinch, because there is no established market, if organized marketing facilities were the same as heretofore and business institutions were left in business hands instead of being made the playthings of prejudice and politics.

[Cotton and Cotton Oil News, Dallas, Sept. 7, 1914.]

The closing of the futures market has certainly eliminated the speculator or "gambler," as some are pleased to term the trader in cotton futures.

Some Congressmen and some agitators among southern cotton growers have long demanded that the speculator be eliminated. Well he has been eliminated, boots, breeches, and all. The exchanges have been closed, another demand of said agitators.

According to the claims and promises of these great reformers the southern cotton grower should now be reaping his profits. The mills would be buying direct from the farmers and paying the latter the big margins that erstwhile went to the exchanges and the gamblers, so-called. But what do we see?

Even a blind man can see that the closing of the exchanges and the elimination of speculators have closed the cotton markets and have put the cotton grower entirely at the mercy of a few spot buyers for the mills. The cotton grower is forced to accept any price offered him.

The cotton mills are also handicapped since they can not go into the open market and buy cotton for future delivery by putting up a margin of about $5 per bale in cash, one-tenth of the value of cotton. Now that he is required to pay cash this buying power is paralyzed and he only purchases one-tenth the quantity of cotton he was able to buy when the exchanges were open and future trading possible.

Under these conditions there is no wonder that cotton has declined and keeps declining.

Our reformer friends among the farmers have simply been forced to take the physic they have been so long prescribing and it certainly should make them sick of silly leaders and quack nostrums.

[Dallas Morning News, Sept. 9, 1914.]

WICHITA FALLS, TEX., *September 8, 1914.*

The directors of the chamber of commerce to-day telegraphed a request to the presidents of the New York and New Orleans Cotton Exchanges urging that steps be taken at once for reopening for business. The directors expressed the belief that renewal of the speculative interests will result in higher prices for cotton.

[Mobile (Ala.), Register, Sept. 9, 1914.]

Referring to the action of the committees at New York in trying to effect a settlement of contracts made before the war, the cotton market report in the Mobile Register of September 9 says; "If a settlement of these contracts will open the way for the resumption of business by the exchanges it is "a consummation devoutly to be wished'' as ever since the exchange closed shippers, brokers, and manufacturers, as well as every one else in any way interested in cotton, have been all at sea as to what cotton is worth. The lack of a broad central market has resulted in an irregularity in prices such as the trade has never witnessed." (Reprinted from Pearsalls News Bureau, Sept. 12, 1914.)

[Atlanta Constitution, Sept. 12, 1914.]

The chamber of commerce committee on ways and means to meet the cotton situation has taken steps to cut down the 1915 crop and materially improve the market for the present year's output. The committee also adopted a resolution urging the New York, New Orleans, and Liverpool Cotton Exchanges to open so a definite market price may be fixed on spot cotton for the benefit of the immediate market.

[Cotton and Cotton Oil News, Dallas, Sept. 28, 1914.]

The banks will loan little money on cotton until the New York, New Orleans, and Liverpool exchanges reopen and put in active operations all their functions, thus establishing some known prices for cotton. We have the word of many bankers for this.

[Textile Manufacturers' Journal, September, 1914.]

In any event, it is only a wild speculation for mills to sell ahead without a cotton futures market on which to hedge. If spot cotton should go below 7 cents there is no indication of what it would sell at for four months off, and unless mills can buy their full supply of raw cotton to cover whatever futures business they should take, they might be caught with the cotton market against them later in the year. There is no doubt in the minds of dealers that the various movements that aim toward the holding or wider buying of cotton have shown direct results in the recent advance of 1½ to 2 cents per pound, but everywhere there is doubt cast upon the permanence of the new level. It is not remarkable that buyers doubt it because they are always bears, but dealers themselves doubt it. Ginnings are far below the normal now, which indicates the holding of a large volume of cotton, but whether the immense pickings of October and November can so be held is another matter. Spinners are, however, learning the economic value of the cotton exchange. When the exchange was being condemned last spring dealers said: "Let them close the exchanges with their laws, and they will soon see how handicapped they are." The experience has been made and spinners realize how valuable is a futures hedge. (Reprinted from Pearsall's News Bureau, Sept. 28, 1914.)

[New York Herald, Oct. 2, 1914.]

Southern planters who in the past have been working for the abolition of the cotton exchange as mere instruments for the cheapening of their product for the benefit of speculators have received an important lesson during the two months since these institutions were compelled to suspend operations. The importance of the stock exchanges in providing a perpetual market for securities and in fixing values through the open competition of buyers and sellers has been impressed upon the country during the protracted period of suspension.

[Pearsall's News Bureau, New York, Oct. 9, 1914.]

MANCHESTER, ENGLAND, *October 2.*

The Cotton Federation at Manchester have issued a circular to their members dealing with the negotiations between the cotton committee of the Federal and the directors of the Liverpool Cotton Association, and adds that the Federal committee in their consultations with the Liverpool directors were strongly advocating the reopening of the cotton market, being convinced that with the continued existence of artificial prices it would be unwise on the part of spinners to make any purchases of cotton except against actual bales of yarn, and that the continuance of artificial prices would make it imperative to entirely stop many more mills. The federation committee are doubtful whether the market will be reopened for some time yet, and urge that in the circumstances spinners should very carefully consider the position, in view of the difference between cotton prices in Liverpool and America.

[New York Journal of Commerce, Oct. 5, 1914.]

A special London cable to the New York Journal of Commerce this morning says: "The disorganized cotton position is gradually producing a grave position in the Lancashire cotton industry. Hence demands are becoming insistent that there should be a full, unrestricted resumption of business on the Liverpool Cotton Exchange. There is slight evidence thus far that spinners are buying direct from America. The situation apparently is that spinners are loaded up with Liverpool contracts at high prices. They have hedged against these contracts in New York and New Orleans. On paper these hedges protect them fully against their severe losses on their home contracts. But owing to the closing down of business in America and the great financial risks incidental to covering American commitments under existing conditions cotton manufacturers and traders are not likely to actively cover their commitments on your side until they have some relief from their losses on Liverpool contracts." Reprinted from Pearsalls News Bureau, October 5, 1914.

[Boston Transcript, Oct. 6, 1914.]

MEMPHIS, *October 6.*

The absence of a contract market for hedge purposes is having a somewhat serious effect on the situation. Many cotton men hold the opinion that conditions will grow worse so long as the exchanges are closed. Bankers do not care to make full loans on cotton when the holder has no means of protecting such cotton by sales of contracts as hedges. One banker says that his institution would not loan a single dollar on cotton until the exchanges resumed and hedging was restored. Buyers are not allowed advances in the way of overdrafts unless they can show that the cotton for which they wish to pay has been sold. The banks want to be sure of immediate reimbursement if they are to put out their money for purchases of cotton.

Cotton can not be sold to the mills for later delivery without hedging facilities. No buyer here is able to secure actual cotton an carry it until December or January even if he were willing to do so, because of financial conditions and because of the extreme risk involved. If the contract markets were open, however, many buyers would not hesitate to make sales for December or January shipment. Probably the people of the South never so fully realized the advantages of exchanges as at present. Certainly never before were they so anxious for the exchanges to be in operation.

[National City Bank, New York, circular, October, 1914.]

The National City Bank of New York, in its circular letter for October, says: "It must be evident now to many people who have doubted it heretofore that the cotton exchanges have had a useful part in marketing cotton. When the exchanges were open there was a broad active market for cotton, conveniently open to everybody; the whole world could trade in it and the price represented the consensus of opinion. There was a standard price closely followed in the local markets, and it was possible for local buyers by selling futures against their daily purchases to do a safe business on a much smaller margin than they must have to carry the risks of the market. More people were interested in cotton, more capital was available for handling it, and there was more competition for cotton than is possible without the facilities which the exchanges afford. It is, therefore, highly desirable that the exchanges be reopened to full operations as soon as practicable." Reprinted from Pearsall's News Bureau, October 8, 1914.

[Gov. O'Neal's address, Alabama State Exposition.]

In his opening address at the grounds of the Alabama State Exposition, at Montgomery, Monday afternoon, Gov. O'Neal, of Alabama, declared, "The greed and avarice of the spinners of New England is directly responsible for the present condition in the cotton-growing States." He charged that the closing of their spindles at this time was merely for the purpose of creating panic prices for cotton in order that they might step into the market at the psychological moment and buy up their supply for this and next year at panic prices.

Gov. O'Neal also said: "There is another thing that must be overcome in the minds of the general public. The people believe that cotton exchanges are merely gambling devices and gambling machines. That is not true. Cotton exchanges are absolutely necessary for the salvation of the cotton crops from year to year, and they and their existence are the salvation of the cotton planter. The teaching that cotton exchanges are gambling devices is wrong; we must recognize the vast importance they are to the cotton grower and encourage their reopening throughout the country." Reproduced from Pearsall's News Bureau, October 15, 1914.

[New York Sun, Oct. 19, 1914.]

As Mr. McAdoo says, "What cotton wants is a restored market." The direct road to a solution of the cotton problem lies through the repoening of the cotton exchanges, which will give both growers and spinners a future market to deal in, and the future market will offer the surest and safest way of caring for the 1914 surplus of cotton.

The real cotton problem of the day is presented by whatever financial obstacles stand in the way of a reopening of the cotton exchanges, and to remove them calls for an infinitesimal effort in comparison with the prodigious undertaking denoted in preposterous valorization devices.

The reopening of the exchanges will conserve all equities, not of the cotton grower alone, but of the spinner, the cotton goods merchant, and the retail buyer, in a manner impossible by all of the other devious methods proposed, for the world will then have again a natural cotton market regulated by economic law.

[New York Sun, Oct. 19, 1914.]

As a scheme for solving the problem presented by the situation in cotton, the banking pool can best be made to serve economic ends in connection with the reopening of the cotton exchanges, which should be hastened in order that there may be a resumption of those dealings in futures which will absorb the 1914 cotton surplus in a legitimate way.

[New York Journal of Commerce, Oct. 22, 1914.]

The inability of mills and their selling agents to hedge on cotton is preventing the closing of some contracts for cloths to be delivered from the 1st of January forward. There is now no difference between intending buyers and sellers on the score of prices where contracts are involved and have been talked of during the coming week, but neither agents nor mills are in a position where they can cover sales of cloths with purchases of cotton unless actual cash is paid. The demand for goods is generally fitful, and traders are awaiting some firmer ground in finished goods.

[Textile Manufacturers' Journal, Oct. 24, 1914.]

The opening of the cotton exchange, it is believed, will exert a bullish influence on raw cotton, as there is bound to be a large amount of buying of hedges and for speculation. A futures market will afford mills a basis for contract work and will give advance orders a safer standing.

[Pearsall's News Bureau, New York, Oct. 27, 1914.]

SELMA, ALA., *October 25.*

The business men of Selma who are engaged in the cotton business and the other residents and business men of the city who have felt the effects of the general depression because of the European war, were somewhat elated by a telegram which was posted on the board of the local cotton exchange this morning and which was to the effect that there was a possibility that the New York Cotton Exchange would resume business during the early part of November. With the opening of the New York Cotton Exchange there will follow the opening of the New Orleans Cotton Exchange with stable quotations, and it is believed that the cotton business will soon assume normal proportions.

[New Orleans Times-Picayune, Nov. 14, 1914.]

With the cotton exchanges reopened for future trading the speculative public will be able to deal in the commodity and the producer will no longer be at the spinner's mercy. That the crop of 1914 is a very large one—the largest perhaps ever known—is a matter of common knowledge. It follows that several million bales must be carried till a short crop, or greatly improved trade, creates an imperative demand for the present surplus. That either one condition, or both, will arise sooner or later is absolutely certain, unless all human experience is delusory. Even if 5,000,000 bales should have to be impounded in this way, the task would not prove difficult with the vast speculative public to help. With cotton readily salable, bankers will not hesitate to lend and the problem which was recently so acute will solve itself. It remains for the farmer to do his part. Speculation might carry the entire crop at a price, but at only a price low enough to bankrupt every son of the soil. The reopening of the exchanges does not necessarily mean that the price will rise but only that there will henceforth be two possible buyers for each bale. The lesson has been frightfully expensive to be sure, but lasting wisdom is not acquired "on the cheap."

Shreveport (La.) Times, Nov. 14, 1914.]

One thing is certain, the futures markets will open with the people of this country in general holding a better opinion of their value and their economic worth more than has ever been entertained before. To put it in the mildest terms possible, the carrying on of the cotton trade during the last three months and a half without the aid of the large cotton exchanges and their future rings and what used to be called "paper" cotton has not been a satisfactory experience at all to everyone concerned. The attitude of the farmers has undergone such a complete change that at one of the most important of their gatherings they passed resolutions calling upon the exchanges to reopen as soon as possible. In Congress there now appears to be almost a unanimous desire to build up the future trade rather than destroy it and to attempt to destroy the cotton future markets used to be the favorite performance of statesmen and near statesmen when they thought it necessary to play to the galleries. President Wilson even went

so far, a short time ago, as to express his wish that the cotton exchanges should reopen as soon as possible. Future trading is apparently entering upon a new phase of it existence.

[Atlanta Journal, Nov. 15, 1914.]

The opening of the cotton exchanges to-morrow at New York, New Orleans, and Liverpool will be welcomed by all departments of the cotton trade. Aside from certain abuses attendant upon them the cotton exchanges perform a distinct service for seller and buyer. How great this service is was fully realized while the exchanges were closed. Then no one knew what cotton was worth. The price differed at times, even in neighboring communities. The exchanges, however, with daily quotations serve to fix a world price upon which everyone may proceed to the transaction of business with all certainty. It may be that the first result of the opening to-morrow will be a decline in price, but if so we are confident that it will not be for long. In fact it is probable the hope of a substantial and maintained rise in the price of cotton just now lies in the trading activity that will take place upon the exchanges. These institutions soon to pass under the control of the new cotton futures law enacted by Congress for the purpose of eliminating all gambling features connected with them, seem, when this has been accomplished, destined to enter an era of still greater usefulness to the business of the world.

[New York Commercial, Nov. 16, 1914.]

Further low offers on print cloths and gray goods failed to result in sales on Saturday, as the mills are waiting further developments this week when the cotton exchange opens up.

[New York Journal of Commerce, Nov. 13, 1914.]

Leading foreign exchange authorities are counting on a large increase in the offering of bills. This refers particularly to cotton, as it is pointed out that the opening of the cotton exchange to-day will pave the way for extensive exports of the staple to Liverpool. * * * Automatically the gold pool is put out of business by the exchange operations of the week. The first call of $25,000,000 has only been used in part, and the syndicate has a balance in London, exchange against which can only be drawn at a loss. The improvement in the cotton market will probably make the $135,000,000 cotton pool also ineffective. The fact that these two pools, representing $235,000,000 to help the exchange and cotton situation will not be needed, forms in itself conclusive evidence of the remarkable improvement that has taken place.

[Mobile Register, Nov. 17, 1914.]

With the cotton exchanges open again for general trading, with the 12 Federal reserve banks announced as ready for business, and with the Chicago stock yards clean and again at work, there ought to be encouragement enough for all in the happenings of yesterday, November 16. Interest centered, of course, in the New York and New Orleans exchanges and there was great relief felt when the market started out in something like a feeling of having no support, rallied and settled to a basis in a short half hour. Of course, no one can predict the future with certainty, but apparently the crucial moment was at the beginning; and we shall see a steady forward movement from now on. Cotton having hit its gate, so to speak, trading in legitimate lines will become general. We shall not be surprised to find the mills of the country and of England entering very liberally into the market; in which case the worst of the trouble of 1914 will be over.

[Cotton and Cotton Oil News, Dallas, Nov. 16, 1914.]

For nearly 10 years the Cotton and Cotton Oil News has told the people of the South just what would happen if the cotton exchanges were ever closed by legislation. What was predicted has happened by the European war closing the exchanges (except they have all been closed and the producers' exchanges, the American exchanges) have had an even break with the consumers' exchange —those of Europe.

We do not wish to crow over the most abundant vindication of our policy, but rather to congratulate those who have heretofore disagreed with us upon their awakening; and more especially the cotton planter upon his promise of a return to normal conditions by the opening of the exchanges, which will guarantee to him a cotton market—he can at least sell his cotton at some price anywhere and everywhere all the time.

The operation of the cotton exchanges will furnish hedge facilities which will immediately make of cotton a cash asset readily convertible into money anywhere. The buyers who have heretofore (since the exchanges closed) been able to buy only

as much as they had orders for, will now be able to buy all cotton in sight and protect themselves from a possible decline by selling futures against all cotton they may not have sold to the spinners, or vice versa, to protect that which they have sold but are short the actual cotton for delivery.

Moreover, there is an insurance feature to the cotton futures not fully understood by the cotton trade—at least the farmer element of it.

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Thus by a system of futures the cotton planter, the buyer, the spinner, and the speculator all bear the burden of the crop. The farmer has borne the burden of the market since July 31, and will always do so when from any means he is deprived of the market made by the operation of the cotton exchanges in the full exercise of all their functions, as well as the active speculation in cotton, which always gives strength to the market, if there is the least possible show for a bull market.

We say, and without claim to that which does not belong to us, that this paper has been more instrumental in the American people realizing the value of the cotton and grain exchanges than any other paper we have ever seen. The three and a half months stagnant cotton market as the result of closed exchanges has been the most convincing proof and support of our contention.

[New York Journal of Commerce, Nov. 18, 1914.]

All things considered, the result of the reopening of the cotton exchanges at Liverpool, New York, and New Orleans was quite as satisfactory as could be expected. There was no excited action and no serious financial embarrassment to the dealers. This was largely due here to the arrangement made by the conference committee through the organization of the Cotton Trading Corporation to take over the burden of commitments made before the closing by means of advances from certain banks and trust companies.

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That the opening was accomplished with such hearty cooperation of all concerned, with a view to sustaining and steadying the market and avoiding all confusion or excitement, is in itself gratifying and hopeful.

One thing to be expected is a better understanding and more favorable opinion of the function of the exchanges and the manner in which they are conducted, especially that in New York. The utility of their service to the planting interest as well as that of the traders and manufacturers may be said to be fairly demonstrated, but the situation was exceptional and forbade any of the speculative vagaries which in times past have discredited the exchange operations, though they were only incidental and occasional in its operation. The experience during a period of agitation for reform and in meeting the present crisis, is calculated also to establish a better standard and have a permanent salutary effect.

The tentative adoption of the Government standard for some of the contracts, while retaining the old form for others, will prepare the way for a more cheerful acceptance of the former as it becomes obligatory to avoid the crushing tax where it is not complied with. This opening after so much trial and adversity may mark a new and happier era for the exchanges, freed from the obloquy of a gambling propensity assumed to be a ruling passion.

[New York Herald, Nov. 24, 1914.]

The New York Herald this morning quotes a number of newspapers on the reopening of the cotton exchanges as follows:

Baltimore News: The calm which attended the resumption of business on the cotton exchanges was a tribute to the careful preparations made by the exchange authorities, aided by financial interests.

Philadelphia Evening Ledger: The New York Exchange resumed business with the market low but not demoralized. And the news dispatches have begun to tell of mills reopened instead of mills closed.

Savannah News: The exchanges reopen upon a changed order of things, and it is hoped will aid in reestablishing order and confidence.

Atlanta Constitution: Farmers are seeing that their own self interests lies in selling cotton and paying debts. Cotton is oiling all the wheels. Whatever mistakes were made will soon be obliterated.

Houston Post: The New York Cotton Exchange would be wise to remain on its good behavior at this time if it values its future existence.

Rochester Democrat and Chronicle: In a sense the slump in the great southern product may be of benefit, for it emphasizes the folly of confining agriculture activities to a single crop.

Minneapolis Journal: Exchanges that deal in commodities are clearly shown by the test of the crisis to be a lawful and helpful facility of trade and a regulator of prices.

Legitimate speculation in grain and cotton is helping the farmers at the present time. It is certain that the demand for grain will be good for at least a year, but the entire production can not be assimilated in half a year. The farmers must turn their crops into cash and only legitimate speculation can provide a ready market for it well in advance of actual consumption. This applies even more strongly to cotton because practically all the cotton in the world is grown in the Northern Hemisphere and reaches the market at the same time. If the farmers were able to hold their crops they would become speculators to that extent, so speculation can never be eliminated. When a farmer plants a crop he speculates in a legitimate way, but it is speculation just the same.

When legitimate speculation is interrupted, as it has been by this war, it is hard to sell cotton in primary markets. Spinners will not buy freely when they can not hedge. Hedge sales by spinners must be matched by speculative buying. When speculation is not active enough on the buying side, hedge selling by spinners and Southern spot buyers tends to work the price down to a lower level, yet all acknowledge that such hedge selling is both legitimate and necessary. Only in this way can the trade take the cotton off the hands of the farmers in the first half of the crop year.

Withour speculation on cotton exchanges spinners would make the farmers carry their own cotton or sell it at fearful sacrifices early in the season. The spinner must insure himself against loss. He can not take chances because the banks will not finance his operations without every possible insurance. If he could not hedge he would have to charge more for yarn and pay less for raw cotton, which would be bad for both farmers and consumers of cotton goods.

When the cotton exchanges resumed business cotton fluctuated erratically and thus went up. The whole trade had been disorganized for three months and cotton had sold for less than 6 cents a pound in southern primary markets. The crop has turned out far bigger than was expected when the price was below 6 cents, but the market is now strong and the crop is moving freely because the trade has got back into its accustomed channels as far as a state of war will permit. The cotton growers can now realize the value to them of legitimate speculation, which is taking care of the crop well in advance of actual consumption.

Senator RANSDELL. I would ask that they all go in, to make this record complete. It is a very important subject.

Senator KEYES. One thing I would like to ask. I am very much interested in your statement in regard to the situation, and realize that you have had a wide experience in the cotton industry.

There is pending before the Committee on Agriculture another bill which concerns cotton, and I don't know whether you care to express an opinion on it or not, but as a cotton man I would be very glad indeed to get your views, if you care to state them. I am referring to a bill introduced in the Senate by Mr. Ladd, the purpose of which is the stabilization of the prices of certain agricultural products. The bill mentions wheat, shelled corn, raw cotton, and raw wool, and the price fixed in the bill to be established is 18 cents per pound for raw cotton, middling spot at New Orleans.

I don't know whether that is a subject you care to touch on or not. I know it is outside of this hearing, but if you care to do so I would like you to express your views on that bill.

Mr. NORMAN. I have very strong convictions in regard to that.

Senator KEYES. If you have convictions, tell us just briefly whether you think that is feasible for the country or for the South. I should be very glad to have your convictions.

Mr. NORMAN. Well, I think it is unfair. While I am in favor of seeing cotton as high as possible, and making the South as prosperous as possible, it is unfair to the other parts of the country that cotton should be given special treatment. If you should attempt to stabilize the price of cotton, other people would probably want it for grain, and if you did it for grain they would want it for corn or wheat and, we will say, hides or rice; and the United States Steel Corporation, if it was not making 7 per cent on its investment, would want it for steel, and they would be entitled to it as much as the cotton farmer. And then I suppose you would have the price of labor to fix. In other words, we might all just as well go out of business and let the Government run everything. That is all I have to say about that.

Senator KEYES. All right. We thank you.

STATEMENT OF MR. GEORGE A. LEVY, LIVINGSTON, GLOVER & CO., SAVANNAH, GA.

Senator RANSDELL. Please give your name and your residence and business, and whom you represent.

Mr. LEVY. George A. Levy. I am a partner in the firm of Livingston, Glover & Co. They are cotton exporters—Livingston, Glover & Co.

Senator RANSDELL. And what is your residence?

Mr. LEVY. Savannah, Ga. I am also a partner in the Savannah Cotton Factorage Co., who are cotton factors and, as such, advance money to the producers of cotton, which we handle on a strictly commission basis.

My statement will be very brief. You can talk on this legislation for months, I think, but we hope——

Senator RANSDELL. Go ahead in your own way.

Mr. LEVY. I am a member of the Savannah Cotton Exchange, which is a spot exchange. We have no futures department. We object to Senator Dial's bill.

Senator RANSDELL. And I suppose the Caraway bill, which destroys all cotton exchanges.

Mr. LEVY. Yes; but particularly to the Dial bill on the ground that it confuses spot transactions with future transactions. They are absolutely and entirely separate. The hedges or future markets are used as temporary hedges for transactions to reduce the liability of loss, and when we enter into them, buyers and sellers—and we are both—we have no idea of dealing in the actual spot cotton in New York or in the exchange in which we trade, but simply as a protection to us in the trade we are then making, whether buying or selling.

Senator RANSDELL. Using the word "hedging" in the sense of insurance?

Mr. LEVY. Insurance. And any contract that fluctuates in sympathy with the actual cotton is satisfactory to us, whether it is basis middling or basis anything. If it fluctuate in sympathy with the actual cotton, it is satisfactory to the cotton merchant. No more satisfactory contracts can hardly be drawn than the present contracts we are using, as we see it. We sell the actual cotton to the spinners of cotton, and through our experience we have learned which spinners use the various grades of cotton. The producer of cotton does not know that. Therefore when he comes to us with a thousand bales of cotton of all grades and staples, we can buy that cotton and temporarily hedge it—sell futures against it. We may never intend to deliver that particular cotton on contract. We get the thousand bales of cotton in, class it, find out how much of each grade and staple there is, and put it before the spinners whom we know use these various grades and staples, and sell it to them, and then we buy in our futures, and the transaction is completed, and we deliver no cotton on future contracts.

Senator RANSDELL. So in that transaction, where you actually handle a thousand bales of cotton for quite a number of farmers who have produced it, you find it necessary, perhaps, to buy and sell several thousand bales in the futures market?

Mr. LEVY. Certainly.

Senator RANSDELL. Using it every time as insurance?

Mr. LEVY. And the spinner has done exactly the reverse in covering his sale of cotton. Now, if we did not have some protection to which we could resort it would be necessary for the cotton crop to sell in a very short period of time. It would be rushed to market, sold, and gotten out of the way. The spinners would have to come in and buy the cotton while it was made.

Senator RANSDELL. For what it would bring?

Mr. LEVY. They could not sell goods out and buy cotton for next October delivery, next June or July delivery. They would have to get in and buy while it was selling. Therefore the farmers would have to rush it onto the market and sell it in short periods of time.

Senator KEYES. And that would cover how long a period? Three months or so?

Mr. LEVY. Three or four or five months.

Senator RANSDELL. Against 12 months, as it now is?

Mr. LEVY. Yes, sir.

Senator RANSDELL. With the assistance of the exchange and this power to insure?

Mr. LEVY. Yes. If it is an effort to artificially affect prices, it should be objected to by every interest.

Senator RANSDELL. You mean if this bill is passed?

Mr. LEVY. Yes; if it is an effort to influence prices artificially. Senator Dial says there is no doubt but what it would increase the price of cotton. We think the law of supply and demand will always take care of that, regardless of any contract.

The Senator also says that because the seller has the option in these contracts of determining what grades will be delivered, the buyer will only buy these contracts at a reduction, at a bargain, because the seller absolutely determines what grades are to be delivered. Then if there are over 100,000,000 bales bought in a year, why should the buyers demand delivery of no more than about 100,000 bales of that cotton if it is bought at such a bargain? You can see on the face of it it is not a bargain.

Senator RANSDELL. Mr. Levy, the reason why there are so many bales dealt in, apparently, is because in your transactions you are obliged to use this as an insurance.

Mr. LEVY. And temporarily.

Senator RANSDELL. And temporarily. So if there are actually, let us say, 15,000,000 bales of spot cotton produced in the whole South, there might be 100,000 bales dealt in on future exchanges, when there was only 15,000,000 bales of spot?

Mr. LEVY. Yes.

Senator RANSDELL. Using it again and again and again for insurance. That is correct, is it not?

Mr. LEVY. That is correct, yes, sir.

Under the operation of the present law it is supervised by the Department of Agriculture, who are very watchful in the interest of the farmers and of fair play, and the differences used in the New York exchange contract are absolutely without the control of the New York Cotton Exchange. They have absolutely nothing to do with those differences.

Senator RANSDELL. Who determines these differences?

Mr. LEVY. Those differences are the average differences used in the principal spot markets of the South. And these spot markets are controlled by southerners.

Senator RANSDELL. And the Agricultural Department of the Government ascertains those differences and announces them?

Mr. LEVY. And announces them and supervises them to see that they are always fair, and when one marker gets out of tune with the other, a representative of the Department of Agriculture will soon be on hand to find out why, and to make an effort to correct it.

Senator RANSDELL. Then it would be very difficult, in the practical working, Mr. Levy, for the New York Exchange or the New Orleans Exchange to do anything wrong if it so desires?

Mr. LEVY. Absolutely.

Senator RANSDELL. Because of the supervision which it is under all the time, not only by the trade, but by the Department of Agriculture?

Mr. LEVY. The Department of Agriculture. If we sell futures for delivery next October, we do not know what the differences will be. We know that they will be the average differences found in the principal spot markets in the South.

Senator RANSDELL. By differences you mean the differences in value between the 10 grades of cotton, some being above basis middling, and some being below basis middling?

Mr. LEVY. Correct; I think that is the whole thing.

Senator RANSDELL. May I ask you just this question:

In brief, now, does the cotton exchange perform a valuable function, and so much so that it ought to be continued in existence, or could you very well afford to legislate it out of existence—destroy it? What is your judgment about that? What would you say about that?

Mr. LEVY. Personally, as a member of a firm which tries to do a conservative business, we prefer the protection of the cotton exchanges, as we can handle our business on a safe and conservative basis at a reasonable margin of profit. Without the protection of the cotton exchanges we would be obliged to ask a wider margin of profit to protect ourselves.

Senator RANSDELL. You mean by that that you can give the producer a better price for his cotton now than you could if there were no exchange?

Mr. LEVY. That is right.

Senator RANSDELL. Then instead of this being a gambling institution, I take it from what you say that it is a conservative institution?

Mr. LEVY. Very conservative.

Senator RANSDELL. It stabilizes business rather than destroys it?

Mr. LEVY. Absolutely.

Senator KEYES. Could you offer any suggestion in any way of any means by which Congress could bring about a more fair marketing situation than the present, and especially having in mind the interests of the grower?

Mr. LEVY. I can not think of any, Mr. Chairman. I am familiar with the working of the cotton exchanges to some extent, as we use them, and they are marked with the efforts of safe, sane, and very conservative business men.

Senator KEYES. In your opinion would the grower gain anything by the passage of this proposed legislation?

Mr. LEVY. He would lose.

Senator KEYES. In your opinion he would lose?

Mr. LEVY. He would lose, in that it would handicap the class of merchants who now can handle his product on a safe and sane basis. It would make it necessary for them to speculate and to charge for that speculation on a larger margin of profit, to protect themselves. The crux of the whole situation is that the spot element is being forced into the futures element, and they are as separate things as day and night.

Senator KEYES. Is that all, Senator?

Senator RANSDELL. Yes.

The next witness is Mr. West.

STATEMENT OF MR. S. Y. WEST, LITTLE ROCK, ARK.

Senator RANSDELL. Will you please give your name, Mr. West, your residence, and your business?

Mr. WEST. S. Y. West, cotton buyer and exporter, speaking for myself and the Little Rock Cotton Exchange and the Arkansas Cotton Trade Association, not a member of any futures exchange.

I have very little to add to the wisdom of these gentlemen who have been speaking here this morning; but, boiled down very briefly, the thing looks to me like it comes to this: A number of years ago, before we had marine insurance, people who shipped stuff around the world had to make much larger profits than they do to-day, when we can, for a very small premium, have our marine risks insured. The cotton people, under the present system, have price insurance, and it would be much better if these exchanges were called price insurance associations, as Lloyd's is called an insurance, than if they were really called futures.

Senator RANSDELL. They are really price insurance?

Mr. WEST. They are really price insurance associations. They are not themselves companies. It is simply a place for people to meet.

Senator RANSDELL. It is very much like Lloyd's in that respect, is it not?

Mr. WEST. Yes; it is, exactly. Lloyd's is not an incorporation, as an insurance company is in this country at all. It is just a meeting place where these underwriters get together, this terrible speculating that we hear so much about. We have underwriters of marine risk, underwriters of fire, underwriters of credit insurance, underwriters of all sorts of insurance. They are speculators, if you please. That is just exactly what they are, speculators, as much so as in the cotton business. In the cotton business there is a price underwriter. He bets it is going up or down, just like if I have insured a home in Little Rock, the insurance company will bet me a hundred dollars to two that it will not burn up this year. That is all it amounts to.

Any changes, as we know, upset confidence. I am from a farm State. The exchange that I represent there, of which I happen to have been president, 60 per cent of its membership are farmers, and we do not know a lot about the technical side of these things, but we do know this. We know what happened to us there in our State. I am also interested in a little bank. Futures went up very high in 1919 and 1920, during the winter of 1920, and then the next fall they were very cheap, and still kept getting cheaper. The man who had taken price insurance—and they were forced to do it in my town of Little Rock, because the banks would not loan them any money—was able to pay off his bank, and there was not a dollar lost by a bank in Little Rock on a cotton man. In other sections of Arkansas, where they are not quite so conservative, cotton shippers and merchants, the banks do not understand the economic functions of the futures, they did, or lots of them, and I will say they are in a poor condition. I don't mean that any of the banks are going to bust down there, but they are not flourishing with money.

Here is a buyer and here is a seller. Their interests are diametrically opposed. They have got very little in common. The buyer wishes to buy as cheaply as possible always, and the seller wishes to sell at the highest price obtainable all the time.

Senator RANSDELL. And the ultimate buyer in this country is the spinner?

Mr. WEST. Yes, sir; he is the spinner. I am a buyer this minute and a seller the next. I am one of those horrible middlemen, and maybe I should be eliminated, and I will be whenever there is a cheaper way of handling the cotton crop than the present one; I will go by the board, and ought to go by the board. The spinners, being much wealthier men, commanding much greater credit than any conceivable combination of farmers that I can think of, if we have no futures markets, the spinners could get together and make a combination of credits and would not pay very much for the commodity which they were trying to buy, because the speculator would not

be in there. Maybe some man in India believes cotton is selling too cheap in the United States and he buys a lot of cotton here. That helps to stabilize the price. It helps the spinner, because it gives the farmer enough money so that he won't starve to death.

Senator RANSDELL. Suppose the spinners were the only buyers, Mr. West, and they chose to get out of the market for a few weeks. What would happen then?

Mr. WEST. It would be just like it was in 1914. There would be no bottom to it.

Senator RANSDELL. Just like some other agricultural commodities—no bottom?

Senator KEYES. Then, I understand your position to be that they are really a protection to the grower?

Mr. WEST. Positively.

Senator KEYES. It is a fact that they do not buy through the exchanges?

Mr. WEST. I should say that 98 per cent of the spinners, or 99 per cent of them, never take up a bale through the exchange, Senator. The exchange is simply an insurance association. It is a body politic. The cotton exchanges do not make money at all, just like you might belong to a church or something of that kind. It is just a trading place.

Senator RANSDELL. The spinners do use the exchange as an insurance to hedge? When a spinner wants a thousand bales of spot cotton six months in advance, he will go on the exchange and buy a thousand bales of future cotton for the time?

Mr. WEST. That is right.

Senator RANSDELL. To insure that he is going to get his spots at the price?

Mr. WEST. Mr. Chairman, I did not mean that the spinners did not use the exchanges as price insurance, but for the actual acquisition of their spot cotton which they spin they do not use it.

Senator KEYES. Yes; that is what I understood.

Mr. WEST. That is the way I understood your question.

Senator Dial's bill, the one that he withdrew, and the one that he now wishes passed, I believe that is the thing we are talking particularly to-day——

Senator KEYES. Yes; also a bill introduced by Mr. Caraway.

Mr. WEST. Well, I was going to come to that too.

Senator Dial's bill would have the same effect upon the marketing of cotton as if insurance companies with whom I have my fire insurance policies would say to me, "I will only insure certain qualities of your cotton against fire." Immediately my financial backers, my bankers, would want to know, "Well, what part of that cotton is insured? That is the cotton that we want to loan money on. We won't loan you any money on this other cotton that you can not get fire insurance on." That is, the whole thing is a question of insurance. A great many people don't believe in insurance. I think Senator Caraway does not believe in insurance. He told me that yesterday afternoon, that he had practically no insurance. We are able to get this price insurance to handle cotton on about as close a profit as possible, 1½ to 2 per cent, and out of that we have to pay everything. If I handle 50,000 bales of cotton in a year, at $2 a bale, and do $5,000,000 worth of business, if I make $50,000 a year on my business I am delighted and have done very well. People in the wholesale dry-goods business, wholesale jobbers and grocers who handle $5,000,000 worth of business, if they don't clear pretty near a million they feel like they have got a very hard deal. That is true in the State of Arkansas. I don't know about any place else. Without price insurance it would be impossible for us to do business on so small a margin.

Senator Dial misunderstands the functions of the future exchanges, I believe. He wishes to force everybody to trade on a modified form of section 10 of the Smith-Lever bill. Now, I am from the country, and before the passage of this Smith-Lever bill I felt that people in my position were at a very serious disadvantage many times. Under the present system I have just as much protection as anybody. The Government functions in this matter just as in any other law, for the protection of the farmer, and the Smith-Lever bill is as much a protection for the farmer as for the cotton exchanges.

Mr. Caraway wishes in his bill to eliminate the speculator.

Senator RANSDELL. That would destroy the exchanges?

Mr. WEST. That would destroy the price underwriting feature of the cotton exchanges just as if you said to any insurance underwriter they could not any longer underwrite. To-day you get credit insurance from Lloyd's. It costs you pretty big, but you can get it. In 12 months time they will guarantee the bank against loss under certain conditions.

Then we are attacked about this 100,000,000 bales traded in when only 10,000,000 bales are raised. You take the matter of fire insurance on that same number of bales, you will find it relatively about the same number as the 100,000,000 they speak of being

traded in on the future exchanges, because every time I move a bale of cotton from one warehouse to another—buy it, for instance—when it is moved out of the warehouse that insurance policy is canceled out, and when it gets to my warehouse my policy covers it. When it gets to the depot my policy is canceled out, and another one takes effect when it gets on the railroad. Then, when it arrives at the compress at Little Rock the railroad policy is canceled out and the other policy takes effect at Little Rock. Then, when I sell that cotton, if it goes on the railroad again I cancel my Little Rock insurance and another policy takes it up, and so on, and it is carried right through. Each bale of cotton is insured, on an average, against fire, about six different times. There are 10,000,000 bales of cotton, and there are at least 60,000,000 bales insured against fire.

Senator RANSDELL. That is a very interesting fact. I did not realize that, but I see the truth of it.

Mr. WEST. Mr. Chairman, you asked for suggestions that would better the situation.

Senator KEYES. Yes. We would certainly be very glad to have them if you have any.

Mr. WEST. No. I must frankly admit that I am not intelligent enough to offer any constructive suggestions on this subject unless it would be to increase the number of grades deliverable on a contract rather than to decrease them. That is the interest of my State, because we are pretty far north, and our growing season is short. Our cotton is generally of poorer grade than the rest of the people's, with the exception of western Tennessee, Missouri, and northern Mississippi, possibly. That is the only suggestion I could make of that nature.

Another thing. We all know that uncertainty upsets confidence, and we have had this Smith-Lever bill as an excellent thing, but this business of putting a law in that changes your price insurance policy over night is very destructive of confidence in values. I think one thing that is the matter with the markets now—it has been sluggish for six weeks or more—one thing is the fear on the part of a lot of us that something drastic will be done in regard to futures, and our ability to get price insurance will be destroyed or so badly impaired that we won't be able to finance our business.

The head of the Arkansas Bankers' Association, president of one of the biggest banks in that State, told me that if this law passes there was not a firm that would do business in Arkansas in the cotton business that his bank would be willing to loan more than 40 per cent of the value of cotton or any other commodity which could not get price insurance which, in a very short time, would concentrate the cotton business into the hands of a very powerful, rich firm. People working way back in the woods, willing to work for a small profit, sort of keep the thing from getting into the hands of a very few people.

Senator RANSDELL. Mr. West, do you know of any very well defined sentiment in your State for the passage of this Caraway bill or the Dial bill?

Mr. WEST. The only sentiment in my State is in opposition to both bills. I have heard no favorable expression about either.

Senator RANSDELL. But there is a decided opposition to them?

Mr. WEST. The very fact that I am here, sent here by my exchange to fight this thing.

Senator RANSDELL. Which is not a future exchange at all?

Mr. WEST. Not at all.

Senator RANSDELL. And you are not a member of any future exchange?

Mr. WEST. Not at all. There is only one man a member of our spot exchange in Little Rock, Ark., that is a member of any future exchange, and I think he is the only member of any future exchange in the State of Arkansas.

Senator KEYES. He is a member, as I understand it, as an individual?

Mr. WEST. As an individual; yes, sir.

Senator KEYES. Not representing your exchange?

Mr. WEST. Not representing our exchange at all. Now, as I told you, 60 per cent of our membership are farmers.

Senator RANSDELL. That is, cotton farmers, men who produce cotton themselves?

Mr. WEST. Yes, siree.

Senator KEYES. Mr. West, do you agree with the previous witness that the passage of the proposed legislation, instead of benefiting the grower, would actually injure him?

Mr. WEST. Yes, sir. I think he would be very much in the same predicament that he was in 1914, when there was no futures market. With price insurance I am ready to buy cotton every day at a pretty fair value, based on that price insurance, and without it I could not.

Senator RANSDELL. And there are a great many other people in your position, sir, ready to buy cotton every day, thereby furnishing buyers for the commodity?

Mr. WEST. Yes, sir.

Senator RANSDELL. And without these exchanges you would not be buying?

Mr. WEST. I would not.

Senator RANSDELL. So there would be no people in the market purchasing the commodity, and without purchasers it would naturally go down, wouldn't it?

Mr. WEST. Yes, sir. I agree thoroughly with the other witnesses in that respect. I think it is much better for the farmer. He gets a better price. He can market and does market, I believe, 60 or 75 per cent of his cotton in a very few months out of the year. The mills do not buy anything like that amount of cotton from the farmer at that time. Somebody must take up that slack. They must carry that stock of cotton just as a wholesaler carries a stock of dry goods, or whatever business he may be in. The reason he carries it is becaues he is convenient to the market, for his retailers to come in and buy from him. The farmer is selling from 60 to 70 per cent of his product in 90 days, and the world is using 1,000 per cent, or about 100 per cent of his product in 12 months. You can readily see what would happen to him without a lot of people taking up that slack in that time.

Senator KEYES. Is there anything more, Senator Ransdell?

Senator RANSDELL. No more from this witness. I have one or two more witnesses. Are you willing to go on?

Senator KEYES. Yes; for a while.

Senator RANSDELL. I now wish to produce Mr. Evans, of Houston, Tex.

STATEMENT OF MR. JOSEPH W. EVANS, REPRESENTING THE HOUSTON COTTON EXCHANGE, HOUSTON, TEX.

Senator RANSDELL. Please state your full name and your business.

Mr. EVANS. Joseph W. Evans, representing, or at least the accredited representative of the Houston Cotton Exchange, which, Senator, is the largest spot cotton market in the world, I believe, and also representing the Texas Cotton Association, which comprises practically if not absolutely every merchant of standing—that is, cotton merchant and exporter—in the State of Texas.

Senator RANSDELL. You have been president of that association, have you not, for some years?

Mr. EVANS. Yes, sir; for one year.

Senator RANSDELL. When were you president?

Mr. EVANS. I was president three years ago. I was president of the Houston Cotton Exchange for two years.

Senator RANSDELL. But you were president of the Texas Cotton Association, which reaches out much further than your Houston exchange?

Mr. EVANS. Oh, yes.

Senator KEYES. In your association do you include the membership of the Galveston Cotton Exchange? I have had some letters from them.

Mr. EVANS. In our association we include practically every dealer in the State of Texas. That takes in the membership of Dallas, Fort Worth, and Galveston, and any reputable accredited cotton man. They have to pass a pretty rigid examination to get in there because we are rather proud of our organization and a little bit jealous of its reputation. Every member of that association carries on his letterheads "Member of the Texas Cotton Association." I simply state that to show you that they value their membership.

Senator RANSDELL. What percentage of the cotton of the United States, normally, do you produce in Texas?

Mr. EVANS. I should say 28 or 30 per cent. We used to say a third. This year, which is perhaps a good illustration, Texas will raise 2,200,000 bales. The crop in the United States is 81. I will have to dispute with the Government on that. The Government said 83. Their first guess was 6¼.

Senator RANSDELL. So your percentage is really below the normal this year?

Mr. EVANS. That would work out about that. It would work out something over a quarter and something less than a third.

Senator KEYES. The Government has not, as a matter of fact, hit it very closely?

Mr. EVANS. We are in favor of giving them another guess. They have had three or four, and I say, "Let's give them another guess."

Gentlemen, I have talked at great length and had a very satisfactory discussion from my point of view, with the House committee, and if may I say this, I did not talk to the southern men. There were two or three of them sitting there, but what surprised me and pleased me very much was the great interest that Chairman Haugen and three or four other representatives outside of the cotton belt manifested in this thing, and I wondered, because I recognize that you gentlemen hear a lot of witnesses and must necessarily get pretty tired of this constant drill. I told them that I wanted to make

a few brief statements, and I went on the stand for ten minutes, and stayed there an hour and a half. I apologized for it.

I presume these witnesses that you have examined this morning have pretty well developed the situation. I am a cotton farmer, although I may not look like one, and that is not my principal business. But, being a cotton farmer, I can realize the condition that the cotton farmer is in, in my section of the country. We have got a number of drawbacks, and one is the ravages of the boll weevil. I am reminded of a Negro that was farming down there on shares. The man went down there to look at his crop, and it was in pretty bad condition. The weevil had got in there and ravaged it, and he looked it over and said, "What in the h—— is the matter with this crop?" He said, "Boss, the weevil done et up your half." The weevil has done et up my quarter. That is the statutory proportion which the owner of the land receives. I think the weevil done et up my half. I have not had any revenue for several years back, and have been at pretty big expense.

Now, coming down to the bill, the technical side of this, I am sure, has been thoroughly developed. The only thing I want to say is that in my judgment the cotton producers—that is the man we are all concerned with—at present I don't believe that any good citizen, any man of broad vision in the United States to-day does not realize that the farmer is in a bad plight, and if by legislation or help of any kind his condition can be improved, I think all men of the right kind want that to be done. I think that is independent of creed or politics or anything else. I believe that the farmer, by reason of this liquid and elastic cotton contract, gets for his product many dollars per bale more than he would if you had certain restrictions or an abolition of the exchange.

If you were to take Senator Dial's bill, which I now understand has been changed somewhat since yesterday—— .

Senator KEYES. Changed very materially.

Mr. EVANS. If that contract were restricted in any form it would simply work out this way, that it would practically put the exchanges in the attitude of not being able to do any business except a restricted business between a cotton merchant and a spinner, which in itself would not exceed, as the matter stands, less than half of it. I mean considerably less than that. I imagine that 15 or 20 per cent is done between them.

I have no brief for speculators, but I do say this, that the speculator carries the burden to some extent all the time in any commodity. You can take a specific case. Last fall we began to realize that the growing crop was very short. Cotton went up the first part of August, or somewhere in the very early part of September, 10 cents a pound, or $50 a bale. That never would have happened without the exchanges. Somebody might say, "But it also goes down more than it should." But it is not the same situation, for this reason: If we put something up beyond its intrinsic value, put it up to a very high price, it may attract a little selling, but then a man is selling something he has not got; but if we put it down below its intrinsic value, you atrract a lot of real investors. For instance I have some friends up in Kentucky that never saw a bale of cotton, of rather large means. They wrote me last summer. They said, "We notice that cotton is down. What would you advise? We feel we ought to buy some of it. What do you think about it?"

I wrote back and said, "In my judgment you can not lose much money, and you might make a good deal." So my friends up there wired me. He was talking about futures. He wired me and said, "Will you buy 500 bales?" I sold it to him out of my own stock. That very thing happened. However, there is not the tendency to put something down that there is to put it up. So that you see the cotton futures really add to the price of cotton, in addition to the fact that it represents a ready market.

Of course these other gentlemen, I am sure, touched on that 1914 condition, with which you are all thoroughly familiar.

Senator RANSDELL. Mr. West, if I may break in there, gave us a very interesting illustration of the cotton exchange as an insurance association, compared with Lloyds; that it was used very largely for insurance.

Mr. EVANS. It is used absolutely for insurance, so far as we are concerned, and here is the reason that Senator Dial's idea is impractical, from my standpoint as a cotton merchant. I buy cotton in this way, largely. I do not buy from many farmers. There are a few big planters who sell me their cotton, friends of mine, but generally speaking my business is all done through country merchants, through the men who collect the cotton crop. They are the men who advance money on it. The small farmer, Negro, comes into town Saturday and sells his one or two or three bales.

Senator RANSDELL. To this country merchant from whom you buy?

Mr. EVANS. To this country merchant. This country merchant I have known for years. You know what the confidential relationship is that exists there. They don't call me up. At the close of the market I send them a code telegram. If spots in Houston, Tex., are 16 cents, my limit to them generally is 15⅞, landed at Houston, the difference is absorbed in the insurance and interest that I am out, because they draw on me, draft with bill of lading attached. I may buy 500 bales. Of course there have been days when I bought a thousand. But just say I buy 500 bales from 15 different men in Texas. That will come to me in the form of perhaps 20 or 30 grades. Now, I can not afford to carry that and I immediately sell futures against that, either at the close of that day or the opening of the next, providing I have the spot transaction rounded out, and always we buy a great deal more cotton than we sell during the fall, as Mr. West explained just as he left the stand. If I am to sell a future contract which comprises two or three grades, where I am buying 20, as it is now, there is some of that cotton which is outlawed. But if I am to sell a future contract which represents two or three grades, whereas I have bought cotton of all grades, I simply would not be able to function. I can not do that, because when that buyer comes to me and says, "Well, Mr. Evans, you have sold me a hundred bales of cotton, and I want strict good middling," while Houston is the largest spot market in the United States, and their stock to-day is 300,000 bales, I will say that there is not on that market to-day 300 bales of strict good middling, and if that man has the privilege under this proposed measure of demanding 50 per cent or 25 per cent of strict good middling, he and I are going to come to an impasse, and I will have to default my contract, and he will have to take some legal measures.

That is the extreme, because, as a matter of fact, whenever that contract was narrowed to where I have to enter into it on that basis, I would not go into it. What is the effect upon the farmer? That is what we want to consider. I have not any particular brief for the middlemen. They are able to take care of themselves. If they don't function economically I think they ought to be removed, and that applies to me as well as to any other trade. But what happens to the farmer. I am not able to sell futures as price insurance, as Mr. West so happily terms it. I can not handle his cotton on a margin of 50 cents a bale. I am not one of the largest dealers in the State, nor am I one of the smallest. I consider 75,000 bales a very good turnover. If I can handle 75,000 bales and make 50 cents a bale, I am simply tickled to death. In other words, I have taken a commodity that is worth $100 per bale. I have taken that and bought it from all parts of Texas, put it in running grades, and staple—staple is the most important thing—and shipped that, and if I make 50 cents a bale at the end of the year I think I have done all right, and I do not believe any commodity is handled on any narrower a margin than cotton, for this is actually true, that there is the freest, widest competition in the world. In Houston there must be thrity-odd exporters of cotton. Some of them are my most intimate friends, almost blood brothers. I have not as yet had one of those men say to me, "I wish you would stay out of a certain territory, because I buy up there." I would think he was crazy. I would do that against my very best friends. So that the producer gets, all the time, it may not be the intrinsic value, when we consider the relation of cotton to other commodities, but as far as price is concerned, the producer gets every dime that he could expect to get from the dealer, on account of this fierce competition. But if you limited them, I know I would handle a limited amount of cotton. Instead of carrying stock, as I have been doing, of ten or fifteen thousand bales, I would narrow it down to a thousand bales.

Senator RANSDELL. With what effect on the producer?

Mr. EVANS. Then I would buy the cotton at from $5 to $10 a bale cheaper, relatively.

Senator RANSDELL. And the producer would lose that $5 to $10 a bale?

Mr. EVANS. Without a doubt. In other words, while there may be abuses of the system, as far as this economic function is concerned, it is undoubtedly sound.

I want to add just this concrete illustration, if I may, and then I will answer any questions.

Following this Cannes convention, all the world believed before the 1st of January we would begin to return to something near normal conditions. Following the break up of the Cannes convention, we changed our minds. Everything went down. Cotton was particularly affected, because cotton is the political barometer of the world. I can sit at my desk, and when there is a strike in England or a lockout in Germany, or some kind of labor difficulty in Italy, I know it, because the commercial welfare of all the countries of Europe is so much bound up in their cotton goods business. Well, anyhow, the market began going down. It went down quite a little. It found the lowest level that we have had since about August, with the result that these commission merchants had some cotton that they had to sell, or the shipper instructed them to sell. I bought some three thousand bales in the course of two or three days about that time. I bought that on a margin, which at no time would net me over 50 cents a

bale. I rather doubt if it nets that, because simultaneously when I stood in that factor's office—I went from his sample room to his office and onto my office and phoned the exchange and said in one case, "Sell three Marches in New York at a certain price." I told him—I said, "I will buy your cotton if I get that price." I sat there six minutes, not longer, and closed the trade and walked out. That simply illustrates how these transactions can be made if we have a liquid market and an elastic contract which functions under that condition.

Now, you were going to ask me a question.

Senator RANSDELL. I was going to ask you in a general way what in your judgment would be the effect of the passage of either this Caraway bill or either one of the Dial bills on the cotton producers, understand.

Mr. EVANS. I am afraid that the result of the passage of this Dial bill would be that the exhanges would cease to function except in a nominal way. The liquidity or flexibility of their market would be absolutely destroved, with the result that they would hardly amount to anything. It would be just the same thing as closing them up for that matter, in which case the producers of cotton would be bound to receive many dollars a bale less for their commodity. It is impossible to express that. I can not say $10 a bale or $15, but I know that he would receive much less.

Senator RANSDELL. You believe, then, Mr. Evans, that the speculation being permitted through the exchange, together with the perfectly legitimate insurance features of the exchange, really give better prices to the producers of cotton?

Mr. EVANS. Oh, there is no question about that.

Senator RANSDELL. Enhancing the value instead of depreciating the value?

Mr. EVANS. It seems to me to be the most evident proposition in the world.

Senator RANSDELL. Do you know of any well-defined opinion in the State of Texas or anywhere that you are acquainted with in favor of these proposed bills?

Mr. EVANS. I will have to go back a little bit, gentlemen. Ours is essentially an agricultural State. That is about all we have. We have very few big cities, and we have got this enormous empire which is entirely devoted to agriculture. Consequently the political aspect of the State is that of the men who till the soil. Everything is shaped on that.

Prior to 1914 there was a well-defined hostility to all sorts of future exchanges in the State. The war disclosed in 1914 that you might be living in one county and some fellow would pay you 6 cents a pound for your cotton, which of course is a poverty basis, and across the line, not more than 50 miles away some fellow would be paying 5 cents. There was no market.

Senator RANSDELL. You mean after the cotton exchanges were closed?

Mr. EVANS. They were closed in 1914, at the beginning of the war. For three or four months they were closed up. The result was that before they opened the most prominent leaders in the farmers' unions and organizations of similar character came to Houston to see us and said, "Won't you use your influence to have those exchanges opened?" We told them of the difficulties under which we were working. "Well," they said, "they ought to open them all up for us." One man used that expression. So that from that day to this, so far as I know, those men who were leaders in the various agricultural organizations are all heartily in favor of future exchanges.

Senator RANSDELL. Just as a matter of history, state to us very briefly what happened to cotton when the exchanges were closed, the New Orleans, New York, and Liverpool cotton exchanges, in 1914.

Mr. EVANS. Well, I think cotton had begun to sag on the end of the war, naturally, as every other commodity seemed to. It was selling at something like 12½ to 13 cents, and prior to the closing of the exchanges had gotten to about 11 cents. They closed on July 31 or August 1, and for a week nobody did anything. Then they began to buy a little cotton at 6 cents.

Senator RANSDELL. Six cents?

Mr. EVANS. Or perhaps 7. The first cotton, I suppose, was bought at 7, but it immediately went down to 6 and hung around there for some time, and there was no well-defined upward trend until the exchanges opened again.

Senator RANSDELL. When?

Mr. EVANS. My dates are merely approximate.

Senator RANSDELL. About when?

Mr. EVANS. I will say they opened in December. Cotton began declining because there were millions of bales strewn all over the South at that time—the biggest crop we ever raised. To our astonishent our cotton walked right up and sold for 10 cents, say, by April or March.

Senator RANSDELL. After the exchange was opened and people began to trade?

Mr. EVANS. Began to trade. They had a feeling that cotton was cheap, and they could buy it and put futures against it and bring it in and put it in the even grades and staples, and make money out of it.

Senator RANSDELL. Have the farmers changed their attitude of having these exchanges opened? Do they still want the exchanges to do business, so far as you know?

Mr. EVANS. So far as I know; and I may say this, that I happen to be, by reason of a personal relationship, rather closely in touch with some of the head men of the cooperative movement, which is a movement to market their own cotton. They are all heartily in favor of keeping the exchanges open. They would not consider anything else.

Senator RANSDELL. In other words, they are opposed to this legislation?

Mr. EVANS. Oh, absolutely, absolutely. They don't want it. They don't want that contract changed in any way, so far as I know.

Senator RANSDELL. Then you assume that the Smith-Lever law, passed by Congress some years ago, after very considerable agitation and discussion, has, so far as you know, functioned very satisfactorily to all concerned?

Mr. EVANS. Very satisfactorily to the cotton producer, the merchant, and everybody who is concerned in a business way. Of course, gentlemen, I know very little of legislation, but I must say that as far as I know about those things, commercially speaking, the Smith-Lever law is one of the most constructive measures ever put on the statute books. That is our attitude. Now, of course, I am speaking to you from the standpoint of a cotton merchant, but that is the general opinion among all those concerned in cotton.

Senator RANSDELL. I suppose you would agree with Mr. West that if there be any changes at all in it they should be toward a little bit more flexibility rather than to narrow it?

Mr. EVANS. I don't know whether I am warranted in quoting Mr. Meador, who is really the official cotton representative; that is to say, what business we have is done through Mr. Meador, a very fine gentleman; but he and I talked it over before we came up here this morning. I said to this gentleman there, if there was any change I would say to add two or three grades.

Senator RANSDELL. You mean to add two or three grades instead of taking some off?

Mr. EVANS. Making it a little bit more elastic. He said, "I don't know. I don't quite agree with you." I said, "What do you think?" He said, "Two grades." I had said three.

Senator RANSDELL. He would add two?

Mr. EVANS. He would add two and I would add three.

Senator RANSDELL. But you are satisfied as it is?

Mr. EVANS. Oh, yes; well satisfied. If I should suggest anything I would say put in middling spotted. That is a commercial grade. But certainly any narrowing would defeat the purpose. In fact you might just as well tell us to go out of business as to ask us to put it on the restricted basis as proposed in the Dial bill.

Senator RANSDELL. I understand you live in a city where there is no future exchange?

Mr. EVANS. I have no financial interest whatever in any future exchanges. I am a member of one or two. I am a member of Liverpool. I am not permitted to be a full member. The English do not accord us that privilege. I am merely an associate member. But I am a member of New Orleans for this reason, that the commission on future contracts is $25 a bale. If you are a member it is only $12.50. It saves me a lot of money. I have no futures relationship of any kind that involves money.

Senator SMITH. How much a bale did you say?

Mr. EVANS. Per contract.

Senator SMITH. You said $25 per bale.

Mr. EVANS. I should have said per contract. I thank you for correcting me.

Senator SMITH. You mentioned adding a grade or two grades. You would take that from——

Mr. EVANS. I would take it from the spots. Of course I only speak of Texas. I do not do business east of the river. Their problems, in some respects, are very different from ours. But in Texas we produce every year, first, by reason of rainy conditions, but more particularly on account of the ravages of the boll weevil, many thousands of bales of what we call spotted cotton. We use it every day. I sell that cotton, not daily, but many, many times.

Senator SMITH. I suppose that is on account of the effect the boll weevil has on the boll; some of the divisions of the cotton stick to the boll or the ends of it?

Mr. EVANS. Yes. If the cotton boll is damaged by the weevil or you get a hard rain it will discolor it slightly; not enough to affect it seriously. We sell it as spotted cotton. That is our common description of it—spotted cotton.

Senator SMITH. The fact that it is spotted does not detract from its real value?

Mr. EVANS. Oh, no.

Senator SMITH. The test I made of the tensile strength of the different classes of cotton would indicate that?

Mr. EVANS. It is not affected, so long as it comes under the description of spotted.

Gentlemen, this is one thing I want to say, and I certainly am not inclined to go on with this thing at any great length, because it has been so thoroughly developed before I came over here.

If Senator Dial would pass his measure, and you would go him a little better by restricting it to fewer grades than he has asked for—give him everything he possibly wants, and say, "We are going to give you a little better than you ask for. We will limit it to one grade and leave it to you to name the grade"—there would not be a spinner in North Carolina, South Carolina, or the New England States that would buy a hundred bales of that cotton, with the risk of taking it up, for this reason: The essential thing of all contracts is staple. At least more than grades. You don't buy just staple. You buy seven-eighths or one-sixteenth inch. That is one of the distinctions that nobody but practical cotton men know. No mill would want to buy a hundred bales of cotton to be shipped regardless of staple. If I went to any mill man and said, "I want to sell you a hundred bales of cotton," he would say, "What staple?" I would say, "No staple." He would say, "Man, you have lost your mind."

So if he had everything he asked for and better, nobody would be able to function.

Gentlemen, I don't want to bore you, and I know you have had a long day here.

Senator SMITH. What is your idea as to the effect on the market of limiting the sale of contracts to either the ownership of the actual cotton or ownership of the contract?

Mr. EVANS. The ownership of the contract, to sell or buy?

Senator SMITH. What is your idea of the effect? In other words, ought any man to be permitted to sell a contract for future delivery of cotton who either has not the actual cotton to be delivered against the contract, or a contract with some one who does own it to deliver against?

Mr. EVANS. That would be a polite way of administering an anesthetic to the futures exchange. That is one way of putting them out of business without being so rude as to say, "You are not necessary," because liquidity and flexibility of that future contract is a thing that is absolutely necessary to the trade.

Senator Dial yesterday morning, as you gentlemen are undoubtedly familiar with, got up before the House committee and said that year before last we raised 12,500,000 bales of cotton and there were traded in, in New York and other future markets, 104,000,000 bales. That looked, on its face, as though there were speculation going on, and there always has been and always will be, but if there is not it will be worse for the cotton business.

But you take into consideration that hundred bales which starts from a man in the interior, which I buy, I may in turn sell to a man in Houston, who is buying, we will say, a thousand bales of strict middling for March shipment. He buys in January, is not ready to ship, fixes his price for March, but he buys from me because the cotton is available and the price is right at that time. I have already sold my future. I buy it in and he sells his. We do that simultaneously, so as not to affect either one of us. It is done all the time in the cotton trade. In the meantime there may be a spinner in the Carolinas who expects to buy this cotton from this fellow in Houston, Tex. He thinks it is going to be a little more valuable later on. He has bought a thousand bales for July. He begins to gather that in by buying a hundred of futures or spots. It may be this way: I carry a stock on hand from August to August, which is my fiscal year. What do I do? I sell futures, we will say, at the beginning of the crop season—I will sell 100 bales of December, then transfer them to March, then later on if I have still got that cotton, they go into July. So quite often I use future contracts three times for the hundred bales. So that while those figures appear enormous, in that it seems that perhaps there are many, many millions dealt in, in a speculative way, there are many actual futures involved there that are entirely legitimate. There might be 25,000,000, or it may be 40,000,000

Senator RANSDELL. The mill which buys your hundred bales will also handle it three or four times in the future market?

Mr. EVANS. Quite possibly.

This fellow sells his goods in January for July. He may buy Mays and switch them over to July. Here is what is undoubtedly the fact, gentlemen: Whether speculation to the individual is a good thing or not, I am not prepared to say, because that is not at issue before this committee, as I understand it, but this is the actual truth, that in the main all that buying and selling—frantic buying and selling—is merely the expression of the law of supply and demand as they see it. If they sell it, they think it is going down, and they have too much of it under existing conditions. If they buy it, they think the reverse.

Senator SMITH. Of course we know that there are two classes of people who deal in future contracts. One is when you sell your hedge to protect the actual possession of spot cotton. In that case you actually have in your possession the spot cotton which you could deliver if you wished against the future contract. The other is the fellow who buys or sells future contracts without any idea of ever receiving or delivering any cotton to the spinner, who merely sells it if it goes up or down, and takes his profit or pockets his loss. Now, what would be the effect upon legitimate trading in cotton under the Smith-Lever bill for the transaction of the cotton business to accommodate the mills or accommodate those who handle it in the matter of hedging for future delivery, if there was eliminated from that by law—and it could be accomplished by law—the sale of contracts by an individual or individuals who did not own or did not contemplate owning a bale, and bought them purely for speculative purposes?

Mr. EVANS. It would narrow the market very much. I am quite certain you know enough about future exchanges to know that there are thousands of bales traded in each day. Now, suppose we take just the case you suggested. I have 100 bales of futures sold, and I get an order, we will say, for that 100 bales and I want to buy a contract. I wire a broker in New Orleans to buy my contract. Instead of there being 30 men around there with orders to buy or sell either a little under or above, he has got to go out and hunt a seller. He may have to wire to the Carolinas to get it. That seller, knowing that I am obliged to purchase, if he is a good business man, will say he will take the contract at a certain price. I will say I must have a few points more. The result is I won't have any hedge at all which I can figure on handling. That is what we have to have. In other words, it would deprive the market of this flexibility which is so essential.

Senator SMITH. In other words, you look upon the purely speculative element as being an industrial element in your hedging yourself as against purchase or sale?

Mr. EVANS. I can give you this concrete illustration, Senator.

Last August everybody knew there were 9,000,000 bales of cotton in the United States. There were thousands and thousands and thousands of people who had no connection with cotton at all that bought cotton. In my own experience I had doctors, lawyers, and people all kinds, friends of mine, ask me about cotton that had never said anything to me about it before. Several fellows there said they would like to buy some futures. There were thousands of people of that kind all over the country. Now, what happened? Now, you can talk about the farmer, but he is more canny than you give him credit for. The cotton farmers sold on deflation in Texas a year ago last August. Cotton had sold for 40 cents the year before. Around the 1st of August it was selling for about 37 cents. They kept selling down to 25. They sold thousands of bales. There were plenty of people to buy it at that time. Our country was prosperous. But they sold steadily, believing that it was going down, and they were going to get rid of theirs. In this case what happened? I bought from those fellows. I wired a little fellow there 200 miles from Houston, Tex., whom I have known for years, who was in the habit of taking 10 or 20 bales, when even the market price was 21 cents. I sent him the limit and he bought 398 bales, a man who was in the habit of buying 10 and 20. In the aggregate that was enormous. Every merchant in Houston, Dallas, or Galveston and all over the belt, for that matter, was buying cotton. What were they doing with that cottcn? They didn't have an outlet for it. You could sell some cotton, but not comparative to that enormous amount of business. They were selling futures. I was selling futures at 21 and 22 cents every day of my life. But who was buying it? The speculators. That is all. They bought some down around 15 cents. It was the speculator buying that stuff which enabled us to get what we call a good hedge, which enabled us to pay this price. So that you see under any conditions they certainly serve an economic function.

Senator RANSDELL. In substance, they were a medium of insurance?

Mr. EVANS. Those buyers took the hedge.

Senator RANSDELL. They were insurers?

Mr. EVANS. They certainly were, to their own sorrow, too.

Senator RANSDELL. I guess so. They truly constituted to the cotton trade the same kind of wonderful insurance business which Lloyds have worked up for all sorts of insurance in England?

Mr. EVANS. Yes, sir. That is analogous to it. There is a difference between the two, of course, but it is absolutely essential in the conduct of our business, if we are to function as distributors of the world's crop to those who need it, on a reasonable margin. I believe that I can take my books and demonstrate that the cotton merchant, under ordinary conditions, makes no more than a legitimate profit.

Senator RANSDELL. You are head of the Cotton Association of Texas, and that is the greatest cotton section, almost, of the United States, if not the greatest. I want to ask you what was the effect of nontrading in futures in many agricultural products,

such, for instance, as rice, cattle, hides, and things of that kind, out in your own State? How did they hold up as compared with cotton?

Mr. EVANS. I can give you a better illustration than that. I was born and raised in Kentucky, and I have always retained my interest in my home State. Tobacco, at the close of last fall, was selling at 40 cents. Last fall there was no market, and it was down around about 12 cents.

Now, as to hides, we all know of the fellow that took several hides to town to buy a pair of shoes. It actually happened in my own observation. A friend of mine in the hide business told me a man shipped him a hide from way out in western Texas. The value of the hide was 60 cents and the express was 58, and right there the price got down to 2½ cents, and nobody wanted to buy. That happened in some degree to every commodity which did not have some——

Senator RANSDELL. There were no exchanges for tobacco, hides, and rice, were there?

Mr. EVANS. No. This deflation, as applied to the United States, began with wool. As applied to Japan, it began with silk. But wool went down—I don't know the exact war price—I have in mind 60 cents. It went down. You couldn't give it away. They stacked it up in enormous quantities. You must bear in mind that cotton, from its 40-cent level, declined not in a day, a week, or a month. It took it from August, 1920, to June, 1921, to accomplish that decline of 30 cents, while silk, wool, and practically all textiles went down about 75 per cent of their war value.

Cotton did exactly the same thing, but instead of a precipitous decline, which broke almost everybody overnight, it took almost three-fourths of a year. That was a great thing. It meant a great thing to the banks in our country, where everything is bound up in the cotton, or where practically all loans are made on cotton. I suppose those banks were loaning on a basis of 40 cents, and if they had been called upon to liquidate their cotton loans they would have been broke overnight. As it was, a great majority—my own bank—and I do business with if not the largest bank in Texas, the next to the largest—the First National Bank—and they are thoroughly familiar with the cotton situation; and I told them I was coming up here, and went over there and asked them something about some of the features of this legislation. Their Mr. Scott came along and said, "You can tell them this much, that in the old days we looked on those who dealt in futures with suspicion, but now we look with suspicion on those who do not use futures."

Senator RANSDELL. Mr. Chairman, we are very much obliged to this gentleman, and that is all, unless you want to ask him something else.

Senator KEYES. No.

Senator RANSDELL. I have one or two more witnesses who will take but a little time.

STATEMENT OF MR. BAYLIS E. HARRISS, OF HARRISS, IRBY & VOSE, GALVESTON, TEX.

Senator RANSDELL. State your name and your business, Mr. Harriss.

Mr. HARRISS. My name is Baylis E. Harriss. I am a partner in the firm of Harriss, Irby & Vose, and the managing partner of the Texas and Oklahoma business, with headquarters at Galveston.

Senator KEYES. Where are you located?

Mr. HARRISS. At Galveston.

I came up here as a representative of the Galveston Cotton Exchange, the Dallas Cotton Exchange, and also, as Mr. Evans, a representative of the Texas Cotton Association. Our main or primary business is that of cotton merchants, buyers, and exporters. While we are a southern firm, our head office is at New York. We have selling offices in Boston, Montreal, and also selling offices throughout Europe, and where we have not our own offices in European markets, we have close working connections. We have buying offices in Savannah, New Orleans, and Galveston.

We buy on an average through the three southern offices from 250,000 to 350,000 bales a year, depending, of course, on conditions.

In coming up here I think I can very honestly and very sincerely say that I have no particular ax to grind, particularly since if I did have any ax to grind, I would be up here in favor of Senator Dial's bill or Senator Caraway's, or any other bill to put the exchanges out of business.

Senator RANSDELL. Why?

Mr. HARRISS. I say if I came up here on a selfish mission, Senator.

Senator RANSDELL. Yes.

Mr. HARRISS. For the reason that while I do not want to dig up a family skeleton, I can very honestly and very frankly say that the first real, genuine big money that

we ever made out of the cotton business was when the cotton exchanges were closed July 31, 1914, and remained closed for several months thereafter. We found at that time, so far as the smaller concerns were concerned, the banks just simply would not finance them. In fact, I might say that the big firms also had to do a good deal of scratching to get assistance from tne banks. The result was that you really could not tell within 2 or 3 cents a pound of the value of cotton, and consequently, simply as a matter of business, we were thoroughly justified in buying cotton as cheaply as we could, and for that reason we were justified in figuring on a much larger profit when the echanges were closed—perhaps $10 to $15 per bale, while theretofore we were glad to get by with 50 cent or 75 cents a bale, net profit. Of course at that time, however, we did not have the present Smith-Lever bill, which is, to my mind, just about as near perfection as possible, and to all intents and purposes is serving all practical purposes as well as any bill that could be made into law.

Prior to the passage of the Smith-Lever Act the New York Cotton Exchange allowed all grades to be delivered. Incidentally, without the influence or authority of the Government to step in and pass upon the classification of cotton, very frequently there was a good deal of influence brought to bear upon the men classing cotton for delivery by the large houses. But in conducting our business since the passage of the Smith-Lever law, we find that we can conduct it on a much more satisfactory basis than we ever could before.

The position that I take is that the trade, practically as a whole, is not only thoroughly satisfied with the Smith Lever bill, but they speak of it in highly commendable terms.

As regards the Dial bill, or even the Caraway bill, which is much worse than Senator Dial's bill, I think it would simply have the effect of the exchanges ceasing to function, or, in other words, closing them up. As cotton exporters, if the exchanges were closed up, or if we have not these facilities for clearing our business, why, simply as a matter of self-protection (although I am in thorough sympathy with the farmer), simply as a matter of self-protection in business, we have got to buy the cotton cheaply, and with a much larger margin of profit.

I think, furthermore, if these exchanges were closed, the result would be that the banks would say to these larger firms, "Now, you go ahead and buy," but would say to the smaller firms, who, incidentally, create most of the competition, and have a tendency to increase prices—they would probably say to the smaller firms, "We don't care to finance you. Unless we have cotton, future markets and quotations, we don't care to finance you."

Senator RANSDELL. That means the smaller firms would go out of business?

Mr. HARRISS. They would go out of business.

Senator RANSDELL. And a few big firms, like yourselves, would remain in the business?

Mr. HARRISS. We could control the business.

Senator RANSDELL. You could monopolize it if you wanted to?

Mr. HARRISS. Yes, sir.

Senator RANSDELL. Would it be any trouble at all for you to do it?

Mr. HARRISS. Not at all. Of course that sounds like a strange statement for a man to make, but I believe I have got a little bit of humanity in me, and, incidentally, I have been mixed up in the farmer's game quite a little in the last few years. Myself and my brothers took a notion a few years ago, when cotton got to 20 cents, to farm, and we invested in several farms, with the result that we bought a large plantation in Louisiana, up near Vidalia.

Senator RANSDELL. My old district.

Mr. HARRISS. We bought a large tract of land in southwest Texas, and we bought several large farms in western Oklahoma. We tried cotton and wheat and corn and cabbage and Bermuda onions. As the fellow says, we tried a little bit of everything. The result is that I am in thorough sympathy with the farmer. I know his position, and what he has to contend with.

I don't only refer to the cotton farmer. I refer to the producer of everything. If what has happened to us under the favorable conditions under which we work, you can just imagine what the poor devil who actually raises the bulk of the crops has to contend with. The farmer that lives down the lane has absolutely no advantages whatever in the way of business experience, capital, and things of that kind.

Now, I don't want to be telling tales out of school, but when I left home I was negotiating with the Texas Farm Bureau for 15,000 bales of cotton which consisted of all grades, from good middling, to low middling, and spotted and tinged cotton. Along in the fall of the year trade conditions were very bad. Of course in the fall, after the 1st of January, everybody thought they were going to get better. Instead of the great improvement coming after the 1st of January, conditions got worse. I have

been in the cotton business for 23 years. I believe that I can very truthfully state that the demand for cotton during the last six weeks has been really about the poorest that I have ever seen.

The point I make is this. This farm bureau, which is one of the cooperative bureaus in Texas, takes the farmer's cotton in, and sells it from time to time in blocks, or round lots. They are the direct representatives of the farmers. And the point which I wish to emphasize is this. If we could not, in buying that cotton, cover, or protect, ourselves by hedging with futures, instead of being interested in that cotton at 16½ cents a pound, I might be tempted to buy it at maybe 10 cents a pound, if I bought it at all, whereas, if I am able, on the other hand, to hedge by selling futures, I would just simply take that cotton and put it in store and sell it as the demand comes along.

Senator RANSDELL. Taking a small commission on it?

Mr. HARRISS. Yes, sir; a reasonable commission.

Senator RANSDELL. You spoke of being a landowner in three States—Oklahoma, Louisiana, and Texas—I assume, therefore, that you are fairly familiar with conditions in those three States, and are acquainted with a great many people in the three States. Do you know of any well-defined sentiment of the people in those States in favor of this proposed legislation?

Mr. HARRISS. I know of none whatever, Senator, and I believe that I could go further and say this, that if the matter was called to the attention of some of these farming organizations, for instance, the Texas Farm Bureau, I believe they will unquestionably oppose any change. I think they are thoroughly satisfied with the law as it now stands.

Senator RANSDELL. You know of no sentiment, then, at all, in favor of this legislation?

Mr. HARRISS. No, sir.

Senator RANSDELL. You know of a good deal of opposition to it, I take it?

Mr. HARRISS. Yes, sir.

Senator RANSDELL. And you are here to voice that sentiment?

Mr. HARRISS. Yes, sir.

Senator RANSDELL. Do you gentlemen wish to ask any questions?

Senator KEYES. No.

Senator RANSDELL. Is there anything else, Mr. Harriss?

Mr. HARRISS. No. I think, Senator, there are a good many other points that have already been covered by Mr. Evans.

STATEMENT OF MR. J. Y. SANDERS, FORMER GOVERNOR OF THE STATE OF LOUISIANA.

Senator RANSDELL. Gov. Sanders, are you practicing law in New Orleans?

Mr. SANDERS. I am.

Senator RANSDELL. Among your other duties, do you represent, in fact, the New Orleans Cotton Exchange?

Mr. SANDERS. I do.

Senator RANSDELL. Are you familiar with agriculture in Louisiana, generally?

Mr. SANDERS. Yes.

Senator RANSDELL. You are very familiar with everything of that kind in that State?

Mr. SANDERS. Yes.

Senator RANSDELL. Governor, if you could make just a brief statement about your judgment in regard to the proposed legislation, I wish you would do so, sir, in your own way.

Mr. SANDERS. Well, as you know, Senator, this question of abolition or regulation of the cotton exchanges was at one time a very live issue in our State. We have had the question before our legislature time and again. At one time during my administration as governor of Louisiana, the farmers of the State were hostile to the cotton exchanges, both New Orleans and New York. There were, of course, a great many abuses, and up until the past few years, up until the passage of the Smith-Lever Act there was a great deal of hostility among the farming element toward the exchanges. That animosity or hostility has been dissipated in recent years. For instance, at the last session of our legislature, which adjourned two or three months ago, there was a proposition before that body to tax future contracts to such an extent that it would have driven the New Orleans Cotton Exchange out of business. Many men came down to the legislature and opposed the proposed tax on future contracts. Then there was opposition from the farmers through their union representatives.

As far as I can gather the attitude of our State is not hostile at all to-day to the operation of the exchanges, under existing laws. Our people seem very well satisfied. We don't raise much cotton now, but the people that do raise cotton, and the banks that do business with those who raise and trade in cotton, would be at a tremendous disadvantage if there were any national legislation that would prevent the functioning of the exchanges as they now operate.

Senator RANSDELL. Is that the general sentiment in Louisiana?

Mr. SANDERS. That is the general sentiment. Our banks, for instance, carry a great deal of cotton trade. They could not carry that at all, would not carry it, if the hedging or insurance features were eliminated.

Senator RANSDELL. Do you know of any sentiment at all in Louisiana or Mississippi and you are familiar with both States; Mississippi does so much business in New Orleans—in favor of these bills?

Mr. SANDERS. Not at all. The sentiment, if there is any, in favor of this kind of legislation, comes, in my opinion, from people who are not informed as to the conditions. There is always some sentiment against any kind of financial institutions among misinformed people. Now, I don't mean by that statement to say that people who entertain that view are ignorant, but I do mean that they are not informed. If they were informed and knew the truth concerning the economic operations of the trade, they could not and would not be in favor of legislation to restrict buying. There is no man informed who would be in favor of restricting the bidders for his product, to say that I shalll not go in and buy a bale of cotton on the exchange, simply because I have not the actual cotton or have not the actual contract from the man who raises the cotton. It would prevent the man who raises the cotton from having me as a potential customer. It would be just as intelligent to advocate that no man should wear cotton goods unless they were brown-eyed; if they had blue eyes or black eyes, they would not be permitted to wear cotton goods.

We hear a great deal about the man who sells a contract on the market. There is just as much buying as there is selling. Why not talk about the buyers? You can not sell a contract unless there is a buyer for it. When you speak of millions and millions of bales of cotton being sold, it seems to me you must also speak of millions of bales being bought, because there must be a buyer for every seller.

Senator RANSDELL. The idea being that they are used as mediums of insurance, as testified to by all these witnesses?

Mr. SANDERS. You can tell a contract in the same market ten times and it is often done, and every transaction will be absolutely legitimate, and every transaction be an insurance and a hedge, and yet some say that you have sold a thousand bales when there was only a hundred bales of actual cotton.

And there was another statement that Mr. Dial made yesterday, that there were a hundred-odd million bales sold last year, when there were only a couple hundred thousand bales tendered. The reason there were a couple hundred thousand bales tendered is because the Smith-Lever bill is the product of finite minds. I give all credit possible to Mr. Smith and Mr. Lever, yet both of whom are human beings, and being human beings, it is impossible for the Smith-Lever bill to be perfect, any more than it is possible for any legislation to be perfect. If it were a perfect law there would probably not be one bale of cotton delivered on future contracts. The fact that there are very few bales delivered on it shows that it is very nearly a perfect contract. The most perfect form of insurance in the world, Senator, of fire insurance, would be that the company would guarantee me for so much per annum that my house would not burn. That is the most perfect form of insurance. But they can not do it, so they take the other position, that for a certain consideration, if my house burns they will pay me so much money. To say that only a few bales of cotton were delivered, when millions of bales of cotton were bought and sold, to be consistent it would be equally reasonable to say that as hundreds and hundreds of thousands of policies of fire insurance policies are written, and only a few hundred payments made upon loss, that then you ought to wipe out the fire insurance business.

The true fire insurance policies, the best policies, would be those that would absolutely guarantee your property would not burn. But you can not do that. The human mind can not conceive of a contract, and the human hand can not write a contract, Senator, under which at some stage of the game somebody can not make a dime or two by delivering the cotton rather than by selling his contract. But if there were a perfect bill, if you men could conceive of it, and your hand could write it, there would never be a bale delivered under a future contract, sold either in New Orleans or in New York. But, as limited by finite minds, there will always be a few bales delivered. Instead of that being an argument against the law, it shows that it is mighty near perfect.

Senator RANSDELL. Our State is one of very diversified agriculture. I would like you to give us a little idea of the values of cotton compared with the other agricultural products of Louisiana, which are not protected, if I may use that term, by any exchanges through future contracts.

Mr. SANDERS. In our State we raise sugar and rice and cotton. Those are our three great staples. Now, sugar and rice and cotton were all selling in the last good year at a reasonable price. The difference between the three commodities was this, Senator: Rice and sugar are not traded in, as cotton is, in future contracts. They all come in about the same time—in the fall. You pick your cotton, grind your cane, and thresh your rice all in the fall of the year.

Now, all three of those products in Louisiana declined. The difference in the decline, however, was this, that sugar and rice jumped off a precipice. You had sold your rice the year before at from $12 to $14 a barrel, and when you started threshing it last year you did not know what you were going to get, and there was no method of knowing, no quotations on rice, and it dropped to nothing, practically, over night. It was a perpendicular decline, just like this [indicating] right up and down. It dropped to nothing. You couldn't sell it at all. And the same was true of sugar. It went into a perpendicular decline. The decline in cotton was just as much, Senator, but it was a gradual decline. It went down day by day. Men protected themselves and could protect themselves, through the use of the hedge and futures on the cotton market. In that way you could get out with a small loss, whereas, if you had sugar and rice it was a disastrous loss. In the one case you could trade in futures and protect yourself, and in the other case you could not. And then there was this outstanding feature—that, whether you wanted to pocket your loss on your cotton or not, you could actually sell it; if not elsewhere, always through the cotton exchange future contract. But you could not sell your rice or your sugar at all, even at the quotation; you could not sell it at all. There are men in Louisiana to-day who have sugar that they have not sold yet, Senator. That has not been true of a single bale of cotton. You could sell cotton. It may have been that you could not get what you wanted for it or what it was worth, but you could sell it. But sugar and rice could not be sold at all.

Senator RANSDELL. We are very much obliged to you.

Mr. SANDERS. I just want to say, in conclusion, that we earnestly protest, Senator, against any interfering along these lines. Let us have a chance to readjust ourselves and go ahead and tend to our business. We are doing fairly well, and if we are let alone we will get along nicely.

Senator RANSDELL. I would like to ask permission, Mr. Chairman and Senator Smith, to insert in the record statements from two or three other parties, giving their views about this matter. They could not get here. This matter affects the whole South.

Senator KEYES. I have one or two letters here. I don't know to whom you refer, but if they are of reasonable length, put them in the record.

Senator RANSDELL. I will go over them and cut out everything that is not material, and shorten them as much as possible. It will be understood, then, that they will be incorporated in the record.

Senator KEYES. Yes.

(The letters, etc., above referred to are as follows):

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE AND FORESTRY,
February 14, 1922.

Hon. HENRY W. KEYES,
United States Senate, Washington, D. C.

MY DEAR SENATOR: Senator Harris has furnished me and I am attaching hereto, a communication addressed to him under date of February 7, by Hon. W. H. Teasdale, secretary and superintendent of the Savannah Cotton Exchange, with copy of resolutions adopted by the board of directors, relative to S. 385 and S. 399. I will be glad to have you place Mr. Teasdale's letter before the subcommittee, of which you are chairman, having the former measure under consideration.

Thanking you, I am sincerely,

G. W. NORRIS,

SAVANNAH, GA., *February 7, 1922.*

Whereas the board of directors of the Savannah Cotton Exchange is advised that a subcommittee of the United States Senate Agricultural Committee will conduct a hearing on February 13 and 14, 1922, in Washington, D. C., on Senate bill 385 introduced by Senator Nathaniel B. Dial (South Carolina); also Senate bill 399 introduced by Senator Thaddeus H. Caraway (Arkansas); and

Whereas the Dial bill seeks to provide that middling cotton shall be delivered on a future contract or not more than two deliverable grades of equal quantities; and

Whereas the Caraway bill would prevent any person or organization from sending any communication by telegraph or otherwise, in any direction, relating to a contract of cotton for future delivery, unless such person or organization supplies an affidavit that they are growing or actually own such cotton and intend to deliver same on such future contract; and

Whereas both these bills if made a law will practically eliminate all legitimate hedge business in the future markets and thus place cotton dealers, manufacturers, and growers in a serious predicament: Therefore be it

Resolved by the board of directors of the Savannah Cotton Exchange, in special meeting assembled, That a delegation consisting of two members of this exchange be sent to Washington to be present at the scheduled hearing, with authority to vigorously oppose both bills, believing that the enactment of same will seriously impair and jeopardize the entire cotton trade of the country.

Attest:

W. H. TEASDALE,
Secretary and Superintendent.

STATEMENT SUBMITTED BY HENRY G. HESTER, OF NEW ORLEANS, LA., SECRETARY NEW ORLEANS COTTON EXCHANGE.

The contract delivery system as conducted in the New Orleans Cotton Exchange consists of the selling and buying of cotton for future delivery under the United States cotton futures act, as amended March 4, 1919, and regulations of the Secretary of Agriculture pursuant thereto.

The contracts are known as section 5 contracts, as that section of the United States cotton futures act and the regulations of the Secretary of Agriculture constitute the limitations thereof.

(*a*) The provisions of the act are that all contracts made for future delivery on any exchange, board of trade, or similar institution, place of business, not in conformity with the United States cotton futures act are subject to a tax of 2 cents per pound.

(*b*) The contract must specify the basis grade of the cotton involved which shall be one of the grades for which standards are established by the Secretary of Agriculture. Middling shall be deemed the basis grade if no other grade be specified in the contract.

(*c*) All cotton dealt with shall be of or within the grades specified by the Secretary of Agriculture.

(*d*) Cotton delivered on such contracts above or below the basis grade must be settled for at actual commercial differences above or below the contract price for the basis grade.

(*e*) No cotton may be delivered that is below low middling or that is reduced below the value of low middling because of defects, etc. (see act), and is of less than seven-eighths of an inch in length of staple.

(*f*) Tenders on contracts must be the full number of bales involved or the equivalent weight thereof, and the person making the tender shall give written notice five business days before delivery to the receiver, and in advance of final settlement must furnish the receiver a written notice or certificate stating the grade of each individual bale and by means of numbers identifying each bale with its grade.

(*g*) All cotton delivered must be classed in accordance with the classification, made under the regulations of the Secretary of Agriculture, by officers of the Government designated by the Secretary for that purpose.

Under these regulations all cotton delivered on future delivery contracts is inspected and classed by Government officials who issue certificates therefor; in other words, under the law the Government becomes a party to the final settlement of the contracts, insuring the honesty, correctness, and uniformity of such deliveries.

The contract is a strictly legal contract and the seller is forced to deliver and the receiver to receive the cotton specified therein.

As in all contracts made for any article of produce or merchandise, the parties thereto may obtain legal offsets transferring their rights for fulfillment to other parties before maturity by means of substitution of like contracts, differing only as to price.

A rule of the New Orleans Cotton Exchange requires that—

"All contracts for the future delivery of cotton shall be binding upon members and of full force and effect until the quantity and qualities of cotton specified in such contracts shall have been delivered and the price specified in such contracts shall have been paid. Nor shall any contract be entered into with any stipulation or understanding between the parties, at the time of making such contract, that the terms of such contract are not to be fulfilled and the cotton received and delivered: *Provided, however*, That any party holding a contract against another, corresponding in all respects, except as to price, with one h ld by the other party against him, may cancel or close both by giving notice to the opposite party at any time before notice of delivery."

There is another rule of the exchange that prohibits members under penalty of expulsion from engaging in or being associated with any persons who deal in differences on the fluctuations of the market price of cotton.

This much for the methods of transacting the business in contracts for the future delivery of cotton. The origin of the method dates back to the early days of the American Civil War between the States, whereby parties making large contracts with the Government for the supply of food and raiment secured themselves by other contracts for delivery in certain specified periods. The method was subsequently found to be of great economic value by enabling producers to secure in advance of growth fixed prices for their products to be delivered when ready for market and consumers to secure delivery of their supplies in advance of their needs when needed, avoiding the risk of price fluctuations. In fact, much as has been said of speculative features of the future market, it is the means of avoiding speculation or risk by both sellers and buyers of spot cotton. This, in reality is the most valuable feature of the system. In so far as the farmer is concerned, it is the buffer between him and the ultimate consumer. It is a favorite contention of those who do not understand the economic value of the system that an ideal condition would be to bring the farmer and mill man into direct connection, eliminating all who now come between them.

The writer has been more or less connected with the cotton trade for nearly 60 years; first, as a public journalist and subsequently as secretary of the New Orleans Cotton Exchange. He remembers the "ideal days" when there was no future business and the producer was as close to the consumer as in the nature of circumstances it was possible to be. In those days, spinners would secure sufficient for their immediate wants and then retire until supplies would accumulate. There were few to intervene when values sagged hence the spinners had it pretty much their own way. To-day the "men in the street" stand in the way and are ready to buy cotton by means of future contracts whenever in their estimation it is likely to yield a profit. Designate them as speculators or investors or what not, their capital aggregating a vast sum, which was not in evidence in bygone days, is at the convenience of the holder of cotton enabling him to dispose of his holdings at any hour of the business day or to hedge himself by means of a future contract from loss on a declining market. I shudder to think what might have happened to cotton during the past year or more had there been no system of such price insurance. A sheer drop from $182 a bale in July, 1920, to $59 in July, 1921, involving many hundreds of millions of dollars that would have wrecked the financial institutions of the South and, bad as the consequences of the drastic decline have been, a condition would have resulted beyond description. We need all the money we can command to stem the tide as it is, and at no time in our history has the capital of the "man in the street" been more seriously wanted. Shut out the future business and you shut out the "man in the street," who is legion and with him goes his money. He (or they) constitutes the "man" whose income tax contributes to the greater share of the billions that annually pour into the country's Treasury.

By means of the future contract, there is no day or hour in the day that cotton may not be bought or sold and it is this that makes cotton the most liquid asset known to the world's trade.

It constitutes a method of price insurance that may be likened to the vast systems of fire and marine insurance without which living would be relegated to the realms of barbarism. It has repeatedly been urged that a great evil is that the sales of future contracts are annually many times the volume of the cotton crop. Is it an evil? Every time a piece of real estate or an article of merchandise, in transit to the consumer, changes hands it is insured so that the aggregate of such insurances is many times the aggregate value of the fixed or movable articles of trade and commerce. So it is with cotton; every time it changes hands it is made the subject of a future contract for price insurance. While it is true that not all of the cotton is hedged or insured through the future markets, most of it is, and as cotton not infrequently changes ownership six to eight times from the producer to the final consumer, the number of price insurances or hedges is increased accordingly. Transfers of hedges from month

to month also swell the total of future transactions. In a word, the aggregate of futures transactions from day to day involve sales and resales, purchases and repurchases of the same risks, and are therefore not all original transactions, any more than bank clearances show the net amount of money that is transferred on balances.

Conditions affecting cotton are not local nor even confined to influences prevalent in the United States only. Its trade is a world trade and its values are affected by world conditions. These values are reflected more quickly and accurately in the future markets of New Orleans, New York, and Liverpool, but in the main in they turn are governed by the laws of supply and demand and it is a fact that as a rule futures are governed by the actual value of spot cotton instead of governing such values. In general, it may be said that similar trade conditions or world occurrences which influence the variations in foreign exchange produce like effects on cotton.

There is perhaps no more constructive piece of legislation on our statute books than the United States cotton futures act. It regulates the business within the lines of reason and justice and is helpful to producers, traders, and consumers of spot cotton in the United States. If the act has a fault, it lies in the restriction of the number of grades tenderable on contract and to that extent lessens hedge protection of a material percentage of the total annual growth. The result of this is seen in the frequent wide disparity between grades tenderable and untenderable. The disposition in some quarters to further limit the number of grades tenderable for that reason can not prove otherwise than harmful; in fact, further limitations would so circumscribe the number of sellers (and consequently of buyers) in this country as to destroy the hedge features, resulting in closing American exchanges. Legislative experiments of this nature would not merely prove seriously harmful, but would be futile.

In this connection, let me quote the remarks of Senator Williams, of Mississippi, in the Senate on the 5th of August last, in connection with the proposed Dial amendment:

"Mr. WILLIAMS. Mr. President, there is just one thing I wish to suggest as a subject for the Senator from South Carolina to contemplate before he comes forward to exhaustively argue the matter. Even if we can regulate the New York and New Orleans exchanges, and all the exchanges in the United States, would we not have a good deal of the same substantial trouble growing out of the fact that we could not regulate the Havre and Hamburg and Liverpool exchanges; and if they continue this abuse will it not have substantially or to a large extent the same effect upon the farmer? I do not ask that question to be answered now. I merely desire the Senator to think about it before he goes exhaustively into an argument of the subject."

The future business is regulated by the United States cotton futures act and, like the man who experimented upon how much he could regulate the quantity of food for his mule, until by the time he had reached a satisfactory conclusion the mule died, further regulation can only cripple or kill trade control on this side of the water, transferring it to foreign markets. We now have the whip hand. Is it worth while to speculate upon giving it over to the foreign spinner?

Another serious result of destroying the future business in the great exchanges of America would be the elimination of many of the innumerable small cotton markets in the South and the concentration of the trade at the ports and larger interior markets possessing requisite capital. The ability to hedge has helped the small merchant to secure money loans, without which he could not transact business. As in the days prior to the futures system, the shipments would gravitate to the large markets. To-day large merchants or groups of large merchants or capitalists can not control world markets for cotton. Without the future business which embraces the means of legion (the "man in the street") a few large capitalists could and would manipulate the cotton crop either up or down as their interests might dictate.

I remember in the old days, 50 to 60 years ago, no bale of cotton came to market without being assessed in various ways to the extent of $5 to $10 or even more. To-day the average charge is four-fifths less.

The entire modern system of cotton trading is on a broad economic basis which can not be destroyed or restricted beyond certain lines without relegating our southern country to the age of mule cars and sailing ships. Can we afford, in endeavors to correct conditions due to the upheaval of a world war, which require time to rectify, to strike at the root of modern trade methods?

Cotton is low, very low, in comparison with recent high ranges, but there were periods before our Civil War when it sold below 5 cents a pound, not that I believe it will ever reach that level in yours or my time, but we may not ascribe recent depression to market methods. The facts are supplies accumulated to an unprecedented volume at a time when there was a certain curtailment on an unprecedented scale of the offtake of cotton goods and at times could not be sold in volume except through the cotton future contract market.

I believe now the tide is turning, notwithstanding the large "carry over" from the last crop; decreased acreage and production for the current year promises to even up

conditions. Moreover, there are encouraging signs in the goods market which promise a material enlargement of consumption. We are at the "parting of the ways," and consensus of the ablest opinions is that any change must surely be for the better. Legislation, unless it be to aid us to carry the load for a longer period at reasonable charges, can do no more than a man could by attempting to "lift himself by his boot straps." As President Harding puts it, we need more business in legislation and less legislation in business.

The "business" in legislation for the cotton farmer is to help him to better conditions on the farm, to aid him to secure improved transportation to the common carrier, and to protect his products in transit to market.

These can not be brought about instanter by act of Congress, but Congress can help to put matters in train that may revolutionize existing methods and not only cause two blades to grow where but one is now produced but spread happiness and prosperity by enhancing the margin between producing and selling values. I am fully in accord with the Progressive Farmer that as long as the white farmer in the South is forced to compete with ignorant Negro laborers, the avenue to prosperity will continue to be blocked. Until we bring about more intelligent methods of cultivation by means of proper education, the hundreds of millions that are lost through improper, slipshod methods of cultivation will continue to hang as a pall over our southern people. When cotton is produced by intelligent methods, which may be brought about by proper education, the same number of acres that now produce ten millions of bales may be made to yield twice that number, and of high-grade cotton, at a relative cost per acre that will enrich our people and defy competition the world over. Congress can and should assist us in that respect. There is no way to rid ourselves of ignorant labor, of careless, improvident methods of marketing, but through education. It seems pitiful that there is not a few in our southern country who believe that the boll weevil has proven a blessing in disguise by forcing an abandonment of "all cotton" and a consequent diversification of crops. In one county in Alabama, we are told that the growers of cotton have erected a bronze fountain in the heart of the business section of one of its towns, inscribed:

"In profound appreciation of the boll weevil and what it has done as a herald of prosperity. This fountain is erected by the citizens of Enterprise, Coffee County, Alabama."

Is it a wonder that with a superabundance of low grades not worth the cost of production, that the average return to the farmer spells poverty and want? Let Congress help us to educate the rising generation, black as well as white, to rescue our highways and landings from the mud and slush, to see to it that proper protection is afforded from defective storage places of transportation companies, aid us to teach the people that a bale of cotton that is worth much more is as much entitled to protection as a bale of hay or a sack of flour, and the demand for the destruction of economic trade methods, which are a natural help to the grower, will cease. No country in the world is more highly productive than the Southern States, and yet as stated by a well-known authority, "nowhere else are farm laborers (the men, women, and children who produce our cotton) housed in homes so crowded and ill equipped. In Iowa," to quote from the same authority, "86 per cent of the homes have telephones; in South Carolina 5 per cent. In Utah 45 per cent of the farm houses have electric or gas light; in the South 2 per cent. In Nebraska 75 per cent of the farmhouses have automobiles; in five Southern States, less than 10 per cent."

And these relative conditions will continue to exist until the light of education dawns upon our people. There is no short route to prosperity, nor can we hope to encompass needed reforms in a day or a year, but we can with the aid of Congress and the cooperation of the State governments start them on the road to success. If our Senators and Representatives are keen to promote our success, there is abundant room for them to set the ball rolling. The necessity for constructive legislation is imperative. Existing trade enactments are in the interest of the producer and fair alike to the trade and consumer; the necessity for legislative assistance is at the other end of the line. The immediate need is for continued help in financing our products abroad that the foreign manufacturer may be enabled to buy and spin our cotton. This given, the outlook, with the decreased production of the current year, which has not yet wrought its full effect, and the trend toward largely increased consumption at home and abroad, promises an era of values in the near future that will mitigate our troubles. We shall not, however, receive our full dues until much needed reforms are applied at the sources of our supply. Until these are accomplished, high cost of production and inadequate returns will continue to breed dissatisfaction and more or less want among the producers. These can not be legislated out of existence through experiments which tend to circumscribe economic methods which have lessened the cost of marketing and are the results of a half century of careful study the world over.

HARRIS HYMAN, PRESIDENT H. & C. NEWMAN (INC.), COTTON MERCHANTS, NEW ORLEANS, LA.

NEW ORLEANS, *February 11, 1922.*

Senator Jos. E. RANSDELL,
Washington, D. C.

DEAR SENATOR: As you well know, our firm has been handling spot cotton for account of our many farmer friends and interior merchants for the past 50 years. We still sell large quantities of cotton for our customers every year.

During the past March and May it was almost impossible to sell spot cotton, while at the same time we could sell future contracts at 50 points premium over the nominal quotations for spot cotton. We, therefore, sold thousands of bales of March and May contracts for our many customers and made delivery of this cotton. The business was most satisfactory as we were able to deliver grades from low middling up. If the contract were restricted to two grades, it would be practically a physical impossibility for us to take advantage of making deliveries of spot cotton on contracts for our interior customers as it is very rare that a crop lot of cotton belonging to a farmer does not run more than four or five grades.

Requiring the delivery of only two grades would eliminate the use of the future contract market on which to make delivery for account of the farmer.

The effect of the passage of the Dial bill would not be to regulate the future contract, but would be to restrict the contract to a point where its use would be impracticable in connection with the proper handling of a spot cotton business. Therefore, either the contract would be restricted to such a point that the spot cotton merchant could not make use of it in connection with his business, and the only purpose it would serve then would be for speculation, or trading in futures would be substantially discontinued.

The foundation upon which the future contract market is built is on the one which the conservative spot firms throughout the country, the exporters, and the spinners make of the contract as insurance in the conduct of their business. The basis on which practically all trading in cotton throughout the world is conducted is the future contract market, and more so now than ever before. In fact the contract market properly functioning, as it has been for many years, we will hold our customers and handle nearer the value of their cotton than we would without the use of this indispensable facility.

Sincerely yours,

H. & C. NEWMAN (Inc.)
HARRIS HYMAN, President.

HON. [illegible]

[illegible]

Senator JOSEPH E. RANSDELL,
Senate Office Building, Washington, D. C.

As a cotton grower I beg leave to express my opposition to the Dial and Gennings bills now pending in Congress imposing prohibitive taxes on the cotton-producing citizens of the South. I believe the best interest of the South is buying and selling spot cotton is promoted by the United States cotton futures act as it now exists. Any restriction along the lines proposed will destroy the usefulness of this act as an instrumentality for handling spot transactions.

[illegible]

[illegible]

[illegible], Miss., February 11, 1922.

Senator JOSEPH E. RANSDELL,
Washington, D. C.

My attention has been called to the Dial bill and the Gennings substitute, both of which attempt to interfere with the United States cotton futures act as now exists. As both a cotton shipper and a producer I seriously protest [illegible] efforts to defeat this imminent legislation. Any other legislation duly will in no way change the present law, which has established the only system whereby growers and merchants in interior territories realize market fluctuations and also have a keep steadily in the market [illegible] all market prices. Either of the proposed bills would, if put into effect, completely destroy the privileges of [illegible]

trade and divert the cotton trade to European merchants, where practically the same system of trading is in vogue as that covered by the present United States cotton futures act. I am convinced that any changes in the present law would be particularly unfortunate at this particular time, when the producers of the South are so much in need of the marketing facilities permitted under the present law and to deprive the producers of the South of their present facilities, and to substitute either the Dial or Caraway measures for the present law would bring about complete demoralization to every branch of the American cotton industry.

VERNON T. DAVIS.

LAWRENCE W. WEIL, MONTGOMERY, ALA.

MONTGOMERY, ALA., *February 20, 1922.*

Senator JOSEPH E. RANSDELL,
Washington, D. C.:

The United States cotton futures act as it now stands is giving complete satisfaction to the entire cotton trade and to producers. It is my opinion that further legislative interference would be very detrimental to the collective cotton interests of the South.

LAWRENCE W. WEIL.

BASHINSKY, CASE & CO., BIRMINGHAM, ALA.

BIRMINGHAM, ALA, *February 20, 1922*

Senator JOSEPH E. RANSDELL,
Washington, D. C.:

We believe irreparable injury would result to the spot business in the event of the passage of the Dial and Caraway bills. The law as it now stands is sufficient and the trade if it were to function properly in the interest of the South should not be hampered by further legislation.

BASHINSKY, CASE & CO.

JOSEPH NEWBURGER, MEMPHIS, TENN.

MEMPHIS, TENN, *February 20, 1922.*

Senator JOSEPH E. RANSDELL,
Senate Office Building, Washington, D. C.:

I have been in the spot cotton business 44 years. Nothing that has transpired in my whole life would tend to unstabilize the spot cotton business and render it highly speculative than if we were not able to hedge the cotton we buy from the farmer or to able to purchase futures to protect ourselves when we sell cotton for future delivery to the spinner. Therefore if the Dial and Caraway measures are carried, they will be an absolute hindrance to business and possibly mean the eliminating of the regular legitimate spot business.

JOSEPH NEWBURGER.

J. M. BELEY & CO., MEMPHIS, TENN.

MEMPHIS, TENN., *February 18, 1922.*

Hon. JOSEPH E. RANSDELL,
Senate Building, Washington, D. C.:

Any change in the present system of future trading which furnishes price insurance to those handling actual cotton as our firm does would prove disastrous, especially at this particular time when world conditions necessitate every precaution and safeguard known to modern commercialism

J. M. BELEY & CO.

ANDERSON, CLAYTON & CO., COTTON MERCHANTS, OKLAHOMA CITY, OKLA.

OKLAHOMA CITY, OKLA., *February 18, 1922.*

Senator JOSEPH E. RANSDELL, *Washington, D. C.:*

We wish to enlist your active opposition to the proposed legislation embodied in the Dial bill (S. 385) and Caraway bill (S. 399) dealing with cotton-futures trading. The provisions are virtually prohibitive and would in reality practically kill the

business, not regulate it. Such a result would have a disastrous effect on the cotton business of the South, destroying, as it would, the whole machinery of marketing and credit developed in the last 40 years. Further, the time is inopportune when business is slowly attaining to more stable conditions to introduce and seek to enact legislation of a wholly unsettling nature. We trust you can see your way clear to a vigorous opposition to these bills.

ANDERSON, CLAYTON & CO.

Senator RANSDELL. Mr. Chairman, instead of a formally prepared statement upon this subject, I desire to submit certain excerpts from my remarks upon the floor of the Senate on April 30 and May 6, 1920, during the debate on the so-called Comer amendment to the act regulating trading in cotton futures.

I also ask to have included as a part of these hearings the speech which was delivered in the Senate by a distinguished predecessor of mine who was a Senator from Louisiana when similar legislation was being considered in the Fifty-second Congress.

That speech of Senator E. D. White, who was shortly thereafter appointed to the United States Supreme Court, and subsequently as Chief Justice of that august tribunal, has come to be regarded as a classic and will be of great assistance in considering the pending legislation.

Senator KEYES. That is perfectly agreeable to me.

(The remarks, etc., referred to above are as follows:)

[Congressional Record, Sixty-sixth Congress, second session, Washington, Friday, Apr. 30, 1920.]

SPEECH OF SENATOR JOSEPH E. RANSDELL, OF LOUISIANA, OPPOSING THE COMER AMENDMENT TO THE COTTON FUTURES ACT.

Mr. RANSDELL. Mr. President, I wish to discuss the Comer amendment to the cotton futures act inserted in the agricultural appropriation bill. This amendment was agreed to some time ago and is now in conference. In order that the Senate may understand it, I will first read the amendment agreed to by the Senate on the motion of the Agricultural Committee, which is very brief. I read from page 92 of the bill, amendment No. 249:

"*Provided*, That the amendments relating to cotton provided for in section 6 of the act known as the wheat guarantee act, approved March 4, 1919, are hereby recognized and declared to be pertinent legislation."

To this amendment of the committee the Senator from Alabama [Mr. Comer] induced the Senate to accept the following amendment:

"That hereafter each lot of cotton classified as tenderable in whole or in part on a section 5 contract of said act as amended, shall give to the buyer the right to demand that one-half of the contract shall be delivered in the official cotton standard grades of the United States from the grades of middling fair, strict good middling, good middling, strict middling, and middling, and that the seller shall have the option of delivering the other half of said contract from any of the official cotton standard grades as established in said act."

Mr. President, I wish to discuss this question for two reasons. In the first place, I am a cotton grower myself. It is the only business in which I am engaged at the present time aside from my duties as a United States Senator, and Louisiana produces a large quantity of cotton.

In the second place, the city of New Orleans, the largest city in my State, has a big institution, known as the New Orleans Cotton Exchange, which has been severely criticized and commented upon in several speeches made by the Senator from Alabama [Mr. Comer]. I feel it my duty, therefore, to make some explanation and defense of this great business of my State.

Former Solicitor Francis G. Caffey, of the United States Department of Agriculture, in an address delivered before the Alabama State Bar Association at Montgomery, Ala., July 10, 1915 (refer S. R. A. Markets No. 5, issued Aug. 11, 1915, Department of Agriculture), stated that since 1884 120 bills dealing with the regulation of cotton futures had been introduced at various sessions of Congress, and previous to the Sixty-third Congress three passed the House. Since then the Smith-Lever bill was enacted into law and was further amended by the act of March 4, 1919. The trade is now operating under the law which became final August 18, 1914, known as the Smith-Lever bill, and amended March 4, 1919. Senator Comer has introduced an amendment to H. R. 12272, which amendment shall give to the buyer the right to demand that one-half of the contract shall be delivered in the official cotton standard grades of the United States from the grades of middling fair, strict good middling, good mid-

dling, strict middling, and middling, and that the seller shall have the option of delivering the other half of said contract from any of the official cotton standard grades as established in said act.

Mr. President, the president of the New Orleans Cotton Exchange was in this city yesterday, and I had a discussion with him about the effect of the Comer amendment. He stated that the amendment was couched in language which, to him, was ambiguous, that he did not understand exactly what it meant, and he was very fearful that if the amendment should be agreed to and become a part of the law the cotton exchange would not know how to carry it out, and people making contracts for future delivery of cotton would be uncertain as to what meaning the law intended to convey. I asked him to put his statement in writing, which he did, and I will read it. It is addressed to me, dated yesterday, and reads:

WASHINGTON, D. C., *April 29, 1920.*

Hon. JOSEPH E. RANSDELL,
United States Senator from Louisiana, Washington, D. C.

DEAR SENATOR: After carefully reading and considering Senator Comer's amendment to bill H. R. 12272 I have come to the conclusion, although I have not had legal advice, that the ambiguity of the language of the said amendment is such as to cause considerable confusion and litigation and the probable closing of the cotton exchanges until a final decision would be rendered by the Supreme Court of the United States if it should be adopted.

I would like to state at this point that I talked yesterday with another member of the New Orleans Cotton Exchange, Mr. Wolfe, who said that, in his judgment, if this amendment were agreed to as written there would be no transactions on the exchange until the matter had been submitted to the Supreme Court for a construction of its language, which he thought would take at least two years; therefore the exchange would be closed for practically two years. I continue reading:

1. I quote from the amendment as follows:

"That hereafter each lot of cotton classified as tenderable in whole or in part on a section 5 contract of said act as amended shall give to the buyer the right to demand," etc.

You will note that the wording states that cotton shall give to the buyer the right to demand. How can cotton, which is an inanimate thing, possess the power to give the buyer a right to demand?

2. A matter of much greater importance is the following:

"That hereafter each lot of cotton classified as tenderable in whole or in part on a section 5 contract of said act as amended shall give to the buyer the right to demand that one-half of the contract shall be delivered in the official cotton standard grades of the United States from the grades of middling fair, strict good middling, good middling, strict middling, and middling."

It is not clear whether the buyer has the right to demand that one-half of the contract is to be delivered proportionately or in unequal percentages of the grades of middling fair, strict good middling, good middling, strict middling, and middling, or whether the buyer can demand 50 per cent of any one of these five grades.

3. The particular part of this act which is most ambiguous and one sure to be questioned is as follows:

"And that the seller shall have the option of delivering the other half of said contract from any of the official cotton standard grades as established in said act."

The cotton exchanges are now operating under the United States cotton futures act and the amendment thereto contained in the wheat-guaranty bill of March 4, 1919.

Neither of these acts establish any "official cotton standard grades" which you will note the language of the Comer amendment requires.

However, the United States cotton futures act, section 9, states:

"SEC. 9. That the Secretary of Agriculture is authorized from time to time to establish and promulgate standards of cotton by which its quality or value may be judged or determined, including its grade, length of staple, strength of staple, color, and such other qualities, properties, and conditions as may be standardized in practical form, which, for the purposes of this act, shall be known as the official cotton standards of the United States."

I therefore contend that the seller has the option under the Comer amendment of delivering 50 per cent of the contract from the 20 grades established and promulgated by the Secretary of Agriculture under section 9 of the United States cotton futures act, because the amendment thereto of March 4, 1919, does not establish or authorize

the making of official standards, and the words contained in the Comer amendment—"of the official cotton-standard grades as established in said act"—must refer to the grades established and promulgated by the Secretary of Agriculture under the United States cotton futures act, section 9, because, as before stated, the amendment of March 4, 1919, contains no such provision.

Respectfully submitted.

EDW. J. BUTLER,
President New Orleans Cotton Exchange.

Mr. President, I have looked as carefully as I can into the statements contained in Mr. Butler's letter and I believe he is entirely correct. The reference in the amendment of the Senator from Alabama [Mr. Comer] is clearly to the act of 1919, not the original Smith-Lever Act of 1914. It was under the original act of 1914, section 9, that the Secretary of Agriculture was authorized to establish standards and grades of cotton. Hence if the Senate is to adopt the amendment of the Senator from Alabama it should clarify the language, it should rewrite and make clear what is meant.

To confirm my own opinion in this matter, I called up the Bureau of Markets this morning, read this letter to them, and asked what construction they placed upon it? They replied that they had no right whatsoever as an administrative bureau to be giving any advice on legislation, but if I asked them how they construed the Comer amendment as it now appears in the bill pending before the conferees, they would say that it is ambiguous; that they do not understand quite what it means; and that if Congress is to pass this amendment they would respectfully suggest that it be corrected so as to make its meaning clear.

Mr. President, I shall discuss a number of the features of the bill before I get through, but that criticism of Mr. Butler, backed up by what the Bureau of Markets says, illustrates the point which a number of us have made in regard to the amendment; that it is a hasty and ill-considered piece of legislation; that it was not submitted to the Committee on Agriculture and Forestry when the bill was being prepared; that the friends and foes of the measure had no opportunity to discuss it fully before its presentation to the Senate. It came up first on the floor; it came up in the rush of legislation; it came up when many of those who are particularly interested—Senators representing cotton States—were absent from the Senate, and it was agreed to without that full and careful consideration which should be given to important legislation like this.

Bear in mind, sir, that if the amendment passes it will practically nullify the Smith-Lever cotton futures act passed in 1914, fully six years ago, an act which has been functioning very well indeed; an act which has corrected many, I might say most all, of the great evils which were complained of in the cotton-futures business, to wit, the practice, especially on the New York Exchange, of delivering on contract a very low grade of nearly worthless cotton, the value of which was fixed by a committee of the exchange, not at its real value as compared with middling, the basis of the contract, but a very much higher price than its real value.

It was the iniquities of the old contract which were sought to be corrected by the Smith-Lever bill, and they were corrected by it. All the cotton tenderable under the Smith-Lever bill was good, spinnable cotton. The lowest grade was good ordinary. But last year, to make assurance doubly sure, Congress amended the original Smith-Lever bill and removed good ordinary from the tenderable grades, so that now nothing can be delivered below the grade of low middling.

In defending his amendment the Senator from Alabama [Mr. Comer] is recorded in the Record of the 17th of this month as saying:

"The greatest objection the exchanges have to the amendment is that in a great measure it takes the 'bear' out of the transaction. The exchanges want the low grades kept in the tender, not for the purpose of helping the low grades, not for the purpose of benefiting legitimate trading, but for the purpose of increasing the opportunity to 'bear' the market. They know what is the reason. They know it. This is all they have used the low grades for the past year and all the years back, and they know it, and all this stuff about a spinner's contract as against the farmer's and dealer's contract is simply intended to retain an advantage in which the game can be played with marked cards, and they know it.

"They never like the game unless they can mark the cards. It is worse than a Negro crap game where loaded dice are used."

Those are pretty strong words when applied to many of the high-grade men of the New Orleans Cotton Exchange. There are no better men in America than they, no more honorable, able, upright men.

Mr. COMER. Mr. President——

The PRESIDING OFFICER. Does the Senator from Louisiana yield to the Senator from Alabama?

Mr. RANSDELL. Certainly.

Mr. COMER. I believe the Senator said just now that on the New York Cotton Exchange several years ago a very bad, ugly game was played, in which they used punk cotton to depress the market.

Mr. RANSDELL. I have understood that to have been the case. I can not testify personally, but that charge was made on the floor of the Senate when we were discussing the Smith-Lever bill, and it was largely on the statements made at that time that we changed the former rule.

Mr. COMER. I will give the Senator a little further information on that point. Two years ago on the New York Cotton Exchange there was an operator who had sold 10,000 bales and had this low-grade cotton to threaten a tender, and reaped a harvest on New York Exchange on that kind of a transaction. He then sent the cotton to New Orleans to deliver on a similar transaction. It had been understood for years that this low-grade cotton assembled in New York was used for that purpose, and it was also written in the Knox corporation report that in New York some of the exchange members who had the fixing of differences in the prices of the cotton to be tendered, the low grade and otherwise, had sold the market and make the differences out less than the commercial price and reaped a big harvest on that account.

I want to ask the Senator, if I may, were they honorable, honest men? Were they good men? On that exchange you have the same men in New York that you have in New Orleans, and you have some of the very best merchants—you have Hubbard and Carpenter and McFadden, and all of those. The question is, were they honorable men, too, or were they dishonorable men?

I just want to get what you are stating here. What I am charging is that a game was played with marked cards or loaded dice.

Mr. RANSDELL. I know nothing whatsoever——

Mr. COMER. But you ought to know. You are charging this. You charge that it was wrong in New York and yet I charge the same thing in New Orleans.

Mr. RANSDELL. I demand proof of you or of anyone else, because in New Orleans——

Mr. COMER. I will give it to you.

Mr. RANSDELL. If you have their names, I should like to have them put in the Record.

Mr. COMER. I will do it. I will say that two years ago we bought some cotton in New Orleans——

Mr. RANSDELL. From whom?

Mr. COMER. I do not remember just this minute.

Mr. RANSDELL. I should like to have the details, the place, the circumstances.

Mr. COMER. You will get the facts.

Mr. RANSDELL. It is for the Senator to show them.

Mr. COMER. What I am stating is the fact. We had delivered to us 100 bales on contract, and in this delivery of 100 bales there were 16 different styles of low-grade cotton, impossible of almost any kind of use. I sent the statement to the Senator from Georgia (Mr. Smith). I sent him the name and the list of the cotton, and also to the Senator from South Carolina (Mr. Smith), and called attention to the outrageous dealings that were perpetrated on those exchanges by the men. I am not attacking their character. I am attacking their method of business, a method we are demanding should be changed, and it is right that it should be changed.

Mr. RANSDELL. Does not the Senator think that after making such a serious charge as that he ought to tell the Senate the firm that sent him that 100 bales of this very low cotton, this cotton which was not tenderable under the contract?

The Senator is a man of considerable wealth, or reputed to be, and is a man certainly of great intelligence. Why did he not prosecute the people for that? They certainly had no right to tender such cotton as that under the terms of the Smith-Lever Act passed in 1914. The Senator said it was two years ago. Do not generalize. Particularize.

An ordinary criminal when charged with murder is entitled to be told the time, the place, the circumstances of the alleged crime; that he, John Brown, did on a certain day kill and murder Bill Jenks. Now, the Senator has made this charge against the New Orleans Cotton Exchange, and I demand of him to name the men who did it, and to say why he did not prosecute them.

Mr. COMER. May I interrupt the Senator there?

The PRESIDING OFFICER. Does the Senator from Louisiana yield to the Senator from Alabama?

Mr. RANSDELL. Yes; the Senator may interrupt me.

Mr. COMER. I did not prosecute, because the whole transaction was done within the law, the law which we are proposing right now to amend, and which should be changed; that is why I did not do so.

Mr. RANSDELL. How could that be done within the terms of the Smith-Lever law?

Mr. COMER. Because the law authorized the delivery of that kind of cotton.

Mr. RANSDELL. The Smith-Lever Act says——

Mr. COMER. The Smith-Lever Act authorized it, or it was so construed at any rate.

The PRESIDING OFFICER. The Chair wishes to remind Senators of Rule XIX of the Senate.

Mr. COMER. I thank the Chair very much, indeed.

The PRESIDING OFFICER. It is impossible for the reporter to report the debate.

Mr. RANSDELL. I should like to remind the Senator from Alabama that there is no reason why we should get excited. Under the terms of the Smith-Lever law—and I should like to read it and show the Senator what the Smith-Lever law provides—no other cotton than "good ordinary" can be delivered under the terms of the contract. That law was passed in 1914, and was reenacted——

Mr. COMER. If the Senator will allow me——

Mr. RANSDELL. If the Senator will pardon me, I will yield him the floor in a moment. The law was first passed in 1914, and was reenacted in the agricultural appropriation bill of 1916. Here is what it says. I will let any Senator decide the matter for himself. The act after referring to the contract then provides:

"Fifth. Provide that cotton that, because of the presence of extraneous matter of any character or irregularities or defects is reduced in value below that of 'good ordinary,' or cotton that is below the grade of 'good ordinary,' or, if tinged, cotton that is below the grade of 'low middling,' or, if stained, cotton that is below the grade of 'middling,' the grades mentioned being of the official cotton standards of the United States."

And so on.

As I have stated, the Smith-Lever law was passed in 1914; and under the terms of that law one can not contract on any of the exchanges in this country for cotton below "good ordinary." I say, though I am not a spinner, n information received, that "good ordinary" is spinnable cotton. There are many grades of cotton below "good ordinary." The cotton to which reference has been made and which it is said was tenered on the New York market years ago was far below the grade of "good ordinary." I do not see how it were possible for the Senator from Alabama to have cotton tendered to him under the future contract provided for in the Smith-Lever law which was below "good ordinary."

Mr. COMER. May I interrupt the Senator?

The PRESIDING OFFICER. Does the Senator from Louisiana yield to the Senator from Alabama?

Mr. RANSDELL. I shall be very glad to have the Senator interrupt me.

Mr. COMER. If the Senator from Louisiana will excuse me, I will say that a majority of the mills do not use cotton below middling. That is why the grades middling and above are comparatively high now. There are middling, strict low middling, low middling, strict ordinary, and good ordinary. "Good ordinary" is pretty low down, and nine-tenths of the mills do not use "good ordinary."

In addition to that you have in low middling, not low middling white, but low middling yellows, low middling spotted, low middling tinged—three grades; you have strict low middling yellows, strict low middling spotted, and strict low middling tinged; you have in middling, middling tinged, middling yellows, middling spotted, middling stains, a grade of cotton through which runs a deep yellow color. Very few of the mills can use it. Then you have strict middling stains, and so on. With all of these grades I am perfectly familiar, and when I make a statement, Senator, it is right along the line of direct facts; I mean, I have been in contact or seen others in contact with the actual transaction. Under the Smith-Lever law, allowing the 21 grades, there are 5 grades of middling and above, and there are 16 low grades, you understand, and when you get those 16 grades together and conglomerate them, the man who delivers them, I do not care who he is, intended the cotton should not be used. Such a transaction as that is not business; such a transaction as that ought to be outlawed. The cotton people of the South demand of you that you give us a contract that will be honest to the buyer and to the seller, a business contract under which business men can use the cotton. That is what we ask. We are not attacking the character of the men who make such sales any more than the Senator from North Dakota [Mr. Gronna] has attacked the character of the men who operate the corn exchanges, the grain exchanges, and the meat exchanges. We are not attacking their character at all; we are attacking the practice of the exchanges, as the methods

are authorized and carried on in the exchanges. It is wrong that these practices should continue.

This is not a new idea; this is a continuation of a fight that has been going on for years; it is, I repeat, not a new thing, but is, in fact, old.

Mr. RANSDELL. May I ask the Senator if he will not kindly tell us what the 21 grades, to which he refers, are?

Mr. COMER. Yes, sir.

Mr. RANSDELL. As I read the law, there are only 10 grades provided for in the Smith-Lever Act, everything above and including "good ordinary."

Mr. COMER. The difficulty lies in the way the Bureau of Markets has construed the law; it was the Bureau of Markets that murdered it; and I told them so myself; I told them, "You have ruined the law, and it is all wrong."

Mr. RANSDELL. Then, does the Senator charge that the United States Bureau of Markets, as well as the New Orleans Cotton Exchange and the New York Cotton Exchange, have been guilty of gross misdoings in this matter?

Mr. COMER. Not only do I charge it, but I wrote them so. I had a correspondence with them two years ago and openly charged that the law was being administered for the use of the speculators and the gamblers. I openly made that charge, and they have it on their files.

Mr. RANSDELL. One question, please. The Senator has been talking considerably, and I have been very generous, I think, in yielding time to him.

Mr. COMER. I thank the Senator very much.

Mr. RANSDELL. I call the attention of the Senator to the fact that he has neglected to name the criminal. He states that he had this contract for 100 bales. Now, I ask him to name the criminal, the time, and the place.

Mr. COMER. We did most of our business during that year through Lowry & Co. They delivered the cotton according to the law; they did not deliver it unlawfully; it was lawful cotton; but the law which permits such transactions we demand shall be changed.

Mr. RANSDELL. Mr. President and Senators, the Senator from Alabama says that this transaction, affecting 100 bales of cotton, was so utterly vicious and bad——

Mr. COMER. It was vicious and bad.

Mr. RANSDELL. That he actually wrote to the Senator from Georgia about it. It surely must have made sufficient impression upon him to remember the firm which swindled him so badly on this hundred bales of cotton.

Mr. COMER. Let us get that back——

The PRESIDING OFFICER. Does the Senator from Louisiana yield to the Senator from Alabama?

Mr. RANSDELL. I yield.

Mr. COMER. I ask to be excused for my impetuosity, perhaps; I am not accustomed to debate here; it is all new to me.

Mr. RANSDELL. I yield to the Senator.

Mr. COMER. I never said I was swindled.

Mr. RANSDELL. I understood the Senator in that way.

Mr. COMER. I did not intimate that I was swindled; I said the whole transaction was within the law; but that the law which allowed such infamous transactions ought to be repealed, for it is wrong. That is what I said.

Mr. RANSDELL. Did not the Senator intimate——

Mr. COMER. I did not intimate anything at all.

Mr. RANSDELL. Well, let me ask the Senator, then, did he not indicate to the Senate that in this transaction, in connection with 100 bales of cotton on the New Orleans Exchange, he had been very badly treated?

Mr. COMER. No, sir.

Mr. RANSDELL. Very well; if the Senator retracts what he has just stated——

Mr. COMER. I do not retract.

Mr. RANSDELL. Then I will go ahead.

Mr. COMER. I said I had been treated badly by the law; that is what I said.

Now, if the Senator will permit me to make the matter a little bit wider. At the same time we took a hundred bales of cotton in New York through Carpenter & Co. we took up a hundred bales through Hubbard Bros., nice men, good men, but each one of those hundred bales had 12 different styles of low-grade cotton which was tendered for the purpose of preventing its use. We kept that cotton in New York for three months, with instructions to them to sell it, but they could not get a buyer, and after keeping it there for three months and being unable to sell it, or to make a price on it, we sold it back to the exchange, and delivered it. Now, what kind of a transaction is that?

Mr. RANSDELL. I am not attempting to prove that all exchanges and the members thereof are white-robed angels; I am simply trying to show that, in a general way, the transactions of the exchanges are legitimate; and I believe that Senators in the main will agree that they are.

Mr. COMER. Excuse me, please——

Mr. RANSDELL. There may be some rascally transactions conducted there, just as there are in every business of life.

Mr. COMER. I never said "rascally"; I said within the law they perpetrated a transaction that was not business; that is what I said.

Mr. RANSDELL. Let me ask the Senator if within the law these exchanges did something the result of which was to deprive a man of his property, would not that be rascally? It looks to me like it would; I can not look at it in any other way.

Mr. President, in consequence of this attack on the cotton exchanges, it may be well for the Members of the Senate to know what the report of the Committee on Agriculture on the Smith-Lever bill, Sixty-third Congress, second session (H. Rept. 765), says of the functions and economic uses of the cotton exchanges. This is a congressional document issued recently; listen to it, Senators:

"It is the opinion of the committee that the abolition of the cotton exchanges would result inevitably in the monopolizing of the entire cotton crop into the hands of a very few powerful interests, with the force and means to fix the price at which the farmer would be compelled to sell his cotton. Fully 75 per cent of American produced cotton leaves the hands of the producer during the four months of September, October, November and December. It takes no stretch of the imagination to foresee how utterly helpless the farmer, as a class, would be in his present disorganized condition as a factor in fixing the price of his own products, as against the organized genius and money of the spinners and powerful spot-cotton dealers."

Let me repeat those words:

"As against the organized genius and money of the spinners and powerful spot-cotton dealers."

Mr. COMER. Mr. President——

Mr. RANSDELL. I decline to yield for the present.

The PRESIDING OFFICER. The Senator from Louisiana declines to yield.

Mr. RANSDELL. Let me finish this thought, and then I will gladly yield.

"Any legislation, therefore, which eliminates from the cotton trade the element of legitimate speculation and legitimate speculators, must, in the opinion of the committee, result disastrously to the producers."

That is not what a cotton man said; it is what the committee of the United States Congress reported, namely, that the elimination of these exchanges would result disastrously to the cotton producers. But to continue——

"especially at that season of the year when the bulk of the crop is moving from him into the channels of commerce. Cotton exchanges properly regulated in their operations, in that they afford opportunities for legitimate speculation, may be made to be of real benefit to farmers, merchants, and spinners. The legitimate speculator, operating through the exchanges, is the only buffer standing between the helpless producer and the powerful buyer of his product."

I now yield for a question. I would remind the Senator that I am willing to yield for a question, but not for a speech.

Mr. COMER. I would like to ask the Senator a question. Does he think the stabilizing of the value of cotton on the exchange, and the proper functioning of the exchange in representing the true value of cotton, would tend to destroy it? The exchanges, as the Senator knows, are supposed to be an index of prices, and are not supposed to be anything else. Does not the Senator think that the law of supply and demand governs the price of cotton everywhere?

I believe in the exchanges. I believe, when they are functioning right, that they are first-class propositions. All on earth that these measures are trying to do is to have the exchanges do just what they purport to do, and that is to render a true index of the value of cotton, which, as the Senator knows, they have not done for a long time.

Mr. RANSDELL. I can not admit the last statement at all. I believe they have functioned satisfactorily, certainly since the passage of the Smith-Lever Act.

Mr. COMER. Can I convince the Senator?

Mr. RANSDELL. No; I want to try to answer the Senator's question. The Senator has asked me, as I understood the question, if the price of cotton is not regulated solely by the law of supply and demand, or certainly very largely. There is no dispute between us on that proposition. Supply and demand is the great regulator of all prices; but, Mr. President and Senators, cotton is a commodity that is handled throughout the entire year. It is gathered by the producer in two or three fall months, and it should be marketed very gradually for the next 12 months, until the cotton

comes in again. Ordinarily the farmer is not a man of large means. The producer, the farmer, should have some kind of stabilizing influence or agency—some kind of insurance, if you please. I may say to the Senator from Alabama that I should be a very unhappy man if I could not insure my property, my ginhouse, barns, dwellings, store property, and so forth. I find it necessary to insure every dollar's worth of property that I have, and so does every prudent business man. Now, the spirit of the exchange, I say—there may be some people in it who violate that spirit, but the proper spirit back of the exchange is to create an insurance agency, a vehicle of stabilizing, by means of insurance, the transactions in cotton. That is exactly what it does; and in that connection I wish to read at this time a very interesting letter from a gentlemen who was referred to yesterday by the Senator from Alabama in rather derogatory terms.

He read a letter from Mr. Helgason, of Vicksburg, in which Mr. W. B. Thompson, of New Orleans, was spoken of as a man who, in connection with "that New Orleans bunch," would "not hesitate at anything to perpetuate gambling in cotton in its worst form," and so forth. I wish to say that I have known Mr. Thompson for many years and enjoy the honor and pleasure of his friendship. There is not in the city of Washington at this moment a more intellectual man than W. B. Thompson. I have never heard even a reflection against his character for probity and fair dealing in every way. He is a big cotton commission merchant and sells cotton for the producers. He has been for years a large cotton producer himself. I do not know that he is to-day, but until three years ago he owned three plantations in my home parish—East Carroll, La.—and I know that there is hardly to be found anywhere a better or a more intellectual man than Mr. Thompson.

If you will listen to this letter you will find that he is a man of a high ability. It is a letter addressed on the 9th of this month to Mr. J. C. Wannamaker, president of the American Cotton Association, St. Matthews, S. C., and signed by Mr. Thompson in his capacity as chairman of the Louisiana division of the American Cotton Association.

I will state that Mr. Thompson has taken the greatest interest in building up this association of cotton producers in Louisiana; not spinners, but men who produce the cotton from the ground by the sweat of their brow. I have the honor myself of being one of its charter members in Louisiana, and I can not stand quietly by and see letters put in the Record assailing—and I do not believe it was the intention of the Senator from Alabama to assail—the character of that excellent man; but that was the purport of the letter which the Senator inserted in the Record.

Mr. COMER. Mr. President——

The PRESIDING OFFICER. Does the Senator from Louisiana yield to the Senator from Alabama?

Mr. RANSDELL. I will yield when I finish this letter.

The letter to Mr. Wannamaker reads:

[American Cotton Association, Louisiana division. Membership campaign headquarters. 806 Perdido Street, New Orleans, La. Phone Main 6836.]

APRIL 2, 1920

Mr. J. S. WANNAMAKER,
President American Cotton Association,
St. Matthews, S. C.

DEAR MR. WANNAMAKER: I am in receipt of your wire of the 29th instant, as follows:

"Comer amendment offered without our knowledge. Please write fully your judgment of disadvantage to same. Many strong friends in favor amendment, stating will improve value of contract, preventing depression of prices; that producer will have extra inducement for improving production and harvesting. Especially anxious to have your judgment on account profound regard for same."

That was the telegram Mr. Wannamaker sent to Mr. Thompson, and here is his reply:

"In times past I have made a rather close study of the future contract and I have long since come to the conclusion that its chief and, indeed, its only value lies in the protection it affords buyers and sellers of cotton and manufacturers of cotton goods. When the future contract market functions normally, the owner of cotton, pending such time as he can market the same, or, if he be a farmer, before he has made the same, can insure himself against loss by selling a future contract hedge; the cotton buyer can make forward contracts with the spinner before he has any cotton in hand and protect himself against loss by buying a future contract hedge; and the manufacturer may make forward contracts for the sale of his product before he has cotton in hand or a specific grade contract with spot merchant or broker and insure himself against loss by buying a future contract hedge."

Senators, this is somewhat academic, but it is a most difficult and intricate subject, so I trust you will be patient while I read this letter:

"It is this hedge or price insurance function of the future contract which makes it valuable to the trade. It was never intended nor will it ever be possible to make the future contracts for cotton bought and sold around the rings of the exchanges take the place of direct dealings for specific grades and staples between the manufacturer and the spot merchant."

I may interlard here that the Smith-Lever bill contains definite provision for specific contracts set out in full in paragraph 10. One can make a contract for future delivery under the terms of that bill, but it is a specific contract, not a future contract. To proceed:

"These contracts, which provide the protection aforesaid to those who do not want to speculate, are supplied primarily by those who want to speculate and whose business it is to speculate. These latter are the underwriters, who assume the risk. From this postulate it is obvious, therefore, that the form of the contract or the character and extent of the obligation to which the speculative seller or buyer is called upon to commit himself becomes the determining factor in the existence of a future-contract market. If the contract is too narrow, or if it contains conditions which place the seller at a disadvantage, then there will always be more buyers than sellers, and in consequence the contract will go to an artificial premium, and if these disadvantages are exaggerated the price of contracts, irrespective of the value of cotton, will go through the roof, and you will no longer have any contract market, because nobody will be willing to take the short side of the contract. If, on the other hand, the contract be too broad and the advantages all lie with the seller, buyers will be driven from the market, and the whole system of future trading will be destroyed.

"In order, therefore, that supply of contracts may be forthcoming and a future-contract market possible, it is necessary that the authorized contract shall be one to which both the speculative buyer and seller will be willing to commit himself. It must be a basis contract, because no speculative seller of future contracts would commit himself to an obligation to deliver a specific grade which it might be impossible to obtain, and the range of deliverable grades should be sufficiently wide to give him a reasonable assurance that he could secure the cotton necessary to liquidate his contract should he be called upon to do so. On the other hand, the buyer must have assurance that he will not be called upon to take delivery of unmarketable cotton or of any cotton at artificial price differences.

"I indulge in this somewhat prolonged academic discussion in order that you may understand the reason for my opposition to the Comer amendment.

"I am very much in favor of the future-contract market properly regulated. In fact it is my opinion that it would be a great calamity to the producer if the future markets were destroyed or impaired."

Mr. Thompson agrees in that particular with the committees of Congress in their recent report, to which I have already alluded.

He continues:

"I am opposed to the Comer amendment because, in my opinion, it so narrows the contract that its effect would be to drive out sellers, which would have the effect of running up the prices of the contract to abnormal premiums, which in turn would eventually destroy the future contract as a trade agency for hedging purposes. If this were the case, there would then be no reason for the existence of a future-contract market and it would not be tolerated.

"It is true that under the present grade limitations the future contract has been ruling at a discount under the spots, but this discount is not, in my opinion, due to the grade limits. Low-middling white cotton, the lowest grade deliverable, is in spinning value a very good grade of cotton. It does not by any means belong in the category of those worthless grades which have been in times past used under the fixed difference system of the New York Exchange prior to the Smith-Lever law for the purpose of manipulation. It is true that low middling is not and has not been in active demand, but if all grades are to be eliminated from contract deliveries because they temporarily are not in demand, regardless of spinning value, then we would have a most unstable and erratic contract, which would be of no use whatsoever to the cotton trade.

"The reason for the discount of contracts under spots is primarily because the speculative element which looks for deflation and lower prices is in the majority. You will recall that these discounts are larger as the maturity of the contracts is extended and grow less as approach is made to the current month. As a matter of fact, it is the history of the future-contract movement that the current-month contracts run up to a parity, or approximately so, and, in the recent New York March case, to a premium. This proves conclusively that the contract as it now stands is a perfectly

good contract and the future discounts are not the results of any vice in the contract, but rather of the psychology of the speculative trade in respect to future developments.

"I am just as much opposed to broadening the contract as I am to narrowing it. We must remember that these are abnormal times in all lines of business and that we can not expect the future contracts to function as in normal times. It is as much a mistake to try to rectify abnormal conditions by meddling with the future contract as it is to try to restore a fever patient by doctoring the thermometer which registers his temperature.

"The present contract is not sufficiently wide to admit of delivery of grades intrinsically valueless, nor is it so narrow as to deter any reasonable trader from selling under its terms of delivery. It is a good contract, and if we meddle with it we might and probably would, bring consequences of which the meddlers do not dream.

"Of course, the spinners desire a narrower contract. Those who do not use anything lower than strict middling cotton would favor even a strict middling contract, but they do not seem to understand that the future contracts entered into around the ring can not possibly take the place of direct contracts for specific grades and staples made between themselves and spot merchants. The function of a future contract is to supply protection and not specific performance. It is an insurance policy. The insured under a fire policy receives remuneration for his loss, not the rebuilding of just such a house as his fancy might dictate. If the men who want insurance should pass a law which would require the underwriters to furnish a particular kind of house in accord with the wishes of the insured, the result would be that he would deprive himself of all insurance, because the underwriters would not write such a policy.

"Of course, you and I and the producers want a high price for cotton, but if we drive the short sellers out of the market we will advance the price of contracts without increasing the amount realized by the producer, and we will destroy a trade system which is and has been of the greatest value in the problem of marketing cotton.

"I think, therefore, that we should let the contract stand as it is to-day and defer the consideration of any experiments until the trade situation shall have been adjusted to a nearer approach to the normal. In the meantime we should try to reduce the patient's temperature by direct application rather than by monkeying with the thermometer.

"With all good wishes,

"Sincerely, yours,

W. B. THOMPSON,
"Chairman Louisiana Division."

Mr. Comer addressed the Chair.

The PRESIDING OFFICER (Mr. McCormick in the chair). Does the Senator yield?

Mr. RANSDELL. I yield to the Senator from Alabama (Mr. Comer) for a question.

Mr. COMER. The Senator has just read a letter from Col. Thompson. He is a member of the cotton exchange, is he not?

Mr. RANSDELL. Yes.

Mr. COMER. An ex-president of it?

Mr. RANSDELL. Yes, sir.

Mr. COMER. Fully imbued, of course, with all the cotton exchange ideas.

Mr. RANDSELL. Perhaps so, but a friend of the farmers, nevertheless, and above all an honest, patriotic man.

To the casual reader or layman the Comer amendment would appear as an equitable contract to both buyer and seller alike, that is, a 50-50 proposition, but when carefully analyzed it will be noted that the buyer has the right to demand delivery of one-half of the contract from the grades of middling fair, strict good middling, good middling, strict middling, and middling; that is, five grades, whereas the seller has the option of delivering the other half of said contract from the grades of low middling and strict low middling, which are the only grades which he can deliver below middling of the so-called low grades.

Mr. COMER. Mr. President——

Mr. RANSDELL. I will yield to the Senator as soon as I make this statement.

Mr. COMER. Excuse me.

Mr. RANSDELL. But besides the five grades of middling and above from which the seller is compelled to deliver, he may in addition tender good middling tinged, strict middling tinged, and good middling yellow stained. However, the additional grades, with the exception of good middling yellow stained, always command a handsome premium over middling cotton and are generally known in the cotton trade as good grade cotton. The seller in the fulfillment of his option is entitled to use only two of the grades below middling. Therefore, it can readily be seen that only 20 per cent of the grades deliverable are those below middling and not 50 per cent of the

grades below middling, as would be indicated by the casual reading of the amendment. As an illustration, the average grade of the 1918–19 crop was below middling, and it is generally conceded by the trade that the 1919–20 crop, which records will be available by August 1, 1920, is lower than the preceding crop.

I now yield to the Senator from Alabama.

Mr. COMER. I just wanted to state that in the deliverable lower grades strict middling tinges are of no better value, possibly, than strict low middling white. A tinged cotton and a stained cotton are not very desirable in the manufacture of goods, and the five lower grades, except the one, good middling tinged, are not desirable cotton, and there are four of them out of which they have been delivering all these years, and I will state to the Senator that practically all exchange deliveries have been made out of those four grades—low middling, strict low middling, strict middling tinged, and good middling. Mills call for these three grades: Low middling, strict low middling, and strict middling tinged. Whenever you get colored cotton it is not good for spinning.

Mr. RANSDELL. I do not know what effect color has on the spinning value, but I would not place my judgment against that of the Senator, who has had such large experience as a manufacturer. People who are experts in the matter, and in whom I have implicit confidence, assure me that these tinges are really more valuable than middling, and sell higher; but I may possibly have been misinformed.

Mr. COMER. The Senator has been misinformed. A strict middling tinge is no more valuable than the strict low white. The price on the market this season has not been as good. I will just add this, that the four grades I mentioned are grades deliverable under all contracts, and it has been generally understood these were the grades that would be tendered, as the tender is of the lower grades.

Mr. RANSDELL. I repeat that all I know about the matter is what I have been told by the president and two other very prominent members of the New Orleans Cotton Exchange, namely, that these other grades are above middling. That is a difference of opinion, however, and again, Mr. President, fortifies my argument that full hearings ought to be held on this bill. There is such a great dispute as to facts, so much difference of opinion among the doctors. When all the doctors agree, they may put the patient to death without very much criticism by anybody; but if the doctors disagree seriously and the patient dies somebody is going to be criticized sharply; and I am afraid they are going to kill this patient on account of the wide diversity of opinion among themselves, unless the matter can be delayed and discussed very fully. I am sure the urbane and kindly chairman of the Committee on Agriculture will permit this matter to be postponed for an impartial hearing.

He always wants both sides to be fully heard, and he never makes up his mind until he hears both sides.

Owing to the shortage of labor it is likely that future crops for several years will be low grades, as it will be impossible to gather the crop before weather conditions lower the grades, and as only 20 per cent of the deliverable grades are below middling, it will be impossible to get sufficient good grades to warrant the selling of contracts as a price insurance or hedge, and trading will soon become so restircted, particularly during the spring and summer months, when all of the good grades have generally gone into consumption, that the contract will cease to function.

Senators, I beg of you to remember that the legitimate and proper function of this contract is as a hedge, so called, or an insurance, as the ordinary man would understand it. Price insurance will be destroyed and a chaotic condition will exist for the producer, merchant, and cotton banker. As a result the market will be at the mercy of the spinner.

Owing to the large number of low grades grown the Comer amendment is not sufficiently comprehensive and does not allow a sufficeint percentage of the low grades specified in the contract to be delivered. It is, therefore, of little use to the producer and I fear it will have a tendency to greatly reduce in price those grades below middling. To the merchant who uses the Comer contract to protect his forward sales of actual cotton this contract has little value as a hedge or price insurance, for unless he can dispose of the low grades he may have received on the contract he will be unable to use the future market as a hedge or price insurance, for the cotton remaining in his hands is undeliverable without the required 50 per cent of middling and above.

As I have tried to indicate, where is he going to get that 50 per cent? There is so much low grade, how are you going to find 50 per cent of middling and above?

If the Comer amendment is passed and put into immediate effect the trade will be completely demoralized, as all forward sales up to and including December have been made and hedged upon an entirely different basis of price insurance.

All merchants' stocks have also been hedged on an entirely different basis of price insurance. The result of this confusion would be to greatly depress values of actual

cotton to the detriment of the producer, merchant, and cotton banker, and to the great benefit of the spinner.

Another effect of the passage of the Comer amendment will be to greatly increase the expense to the producer of marketing his cotton, as the interior or country buyer who at present buys direct from the producer on his farm or on the country square of the small interior market would not buy any qualities below middling white, unless he had an order for that specific quality, for he could get no price insurance on the grades below middling white or tinges above middling allowed in the contract without carrying bale for bale of the grades of middling and above required by the Comer amendment.

Mr. COMER. Mr. President——

The PRESIDING OFFICER. Does the Senator yield to the Senator from Alabama?

Mr. RANSDELL. I will yield in a moment.

The economic evolution in the cotton trade has been enabling the farmer to carry, finance, and sell his cotton at home to the interior buyer. Under the Comer amendment the interior buyer is seriously handicapped so the producer will be compelled to consign his cotton to the commission merchant far from home, and must assume the many charges incident thereto in order to lighten the burden of financing. He is deprived of selling his cotton at home which is more remunerative.

I now yield to the Senator.

Mr. COMER. Who makes that statement?

Mr. RANSDELL. I make that statement.

Mr. COMER. Yourself?

Mr. RANSDELL. Yes. That is my understanding. I gather it from my investigation of the subject.

Mr. COMER. I desire to know if that was spoken by an experienced person, an experienced cotton man, or an inexperienced one. The reason I ask the question was because it is contrary to every fact in the case.

Mr. RANSDELL. I will answer the Senator by stating that these facts are given to me by members of the New Orleans Cotton Exchange.

Mr. COMER. I thought so.

Mr. RANSDELL. I am not a member of that exchange; I am not a cotton merchant; I am not a cotton spinner; I am simply an humble farmer, who produces cotton, and I sell it the best I can.

But while I am talking about the exchange, I want to say, Mr. President, that it seems to me, as it has always seemed, that the cotton merchants in New Orleans who sell my cotton—for I am obliged to sell through them very largely—on commission usually of 2½ per cent of its value have the same interest to get a good price for it that I have. The cotton exchange of New Orleans is very largely made up of the cotton merchants of New Orleans—I understand fully 50 per cent cotton merchants. I know W. B. Thompson and John M. Parker, the two gentlemen to whom I have already alluded and of whom I shall speak again, are big cotton merchants. These men are interested in getting as high a price as possible for cotton. It stands to reason that if cotton brings 20 cents a pound, or $100 per bale, 2½ per cent thereon amounts to $2.50 per bale. If cotton brings 40 cents per pound, or $200 per bale, 2½ per cent thereon nets $5 per bale.

So these cotton merchants are interested in a big price for the product of the producer. But is the same true of the spinner? Is the spinner interested in paying an enormous price for cotton? It is perfectly natural—and I would pursue the same course if I were a spinner—for him to buy it as cheaply as he can, and certainly prudent business men who are spinners want cotton as cheap as possible. The grower, the producer of cotton, wants to get a good price, and the man who uses the staple wishes to buy it at a low price; the producer on the one hand versus the spinner on the other. The cotton merchant, the intermediary, the man who is paid a commission on his sale, certainly is very much interested in getting a good price for the farmer's cotton, and even if the merchants be the unscrupulous men that some gentlemen would make believe, even if the dealers on the exchange be such vicious persons, I would rather trust my little cotton crop to their tender mercies than to the tender mercies of the men who are going to spin it and sell it as woven goods.

In connection with the same matter I wish to say that the Senator from Alabama [Mr. Comer] has alluded frequently to the great cotton convention recently held in his State at the capital city of Montgomery. That convention passed a unanimous resolution that while they did not pretend to try to fix the price of cotton, nor did they attempt to say how much acreage should be planted in cotton this year, nature having done that—in addition to the shortage of labor—but they did say that the spinners could well afford to pay at least 60 cents a pound for cotton when we consider the unprecedented price received for their manufactured articles.

Mr. COMER. Mr. President——

Mr. RANSDELL. I yield for a question.

Mr. COMER. The only question I wish to suggest to the Senator is that he has confounded commission merchant and the exchange. You sell your cotton through the commission merchant?

Mr. RANSDELL. I do.

Mr. COMER. That is spot cotton. Exchange cotton is a different thing entirely. There is no relation between the cotton merchant and the exchange at all—one selling spot cotton and the exchange merchant is selling or buying contract cotton. There is no relation at all.

Mr. RANSDELL. I think there is a very close relation. I have known them in New Orleans for a great many years, and I never knew a commission merchant there who was not a member of the exchange and very closely connected with it. I have just read what one large merchant, Mr. W. B. Thompson, who is also a member of the exchange, has said.

I yield further for a question only.

Mr. COMER. The exchange transaction and the commission merchant transaction are two different things.

Mr. RANSDELL. Why adopt the Comer amendment, with its many dangerous features, when the country to-day is getting the highest price for cotton since the Civil War, and the producer, merchant, banker, and spinner are all reaping the benefits? Further, it was only on March 4, 1919, that the present contract was adopted and has not been in force one complete crop year. It has functioned normally and has contributed to continue the splendid trade conditions referred to above. It was amended for the purpose of creating a closer relationship between future contracts and spot cotton, and in this respect it has been eminently successful. I wish to call attention to the values of the current month since March, 1919, as recorded in the New Orleans contract market, and its comparative value to the quotation of middling cotton in the New Orleans spot market.

Mr. President, I will not attempt to read the entire table showing that middling cotton in May, July, October, December, 1919, and January and March, 1920, were practically the same as the contract cotton for the same months, a difference of perhaps 1 cent; but I ask that it be printed in full.

The PRESIDING OFFICER. Without objection, permission is granted.

The tabulation is as follows:

Date.	Middling spot quotation.	Current contract month.
	Cents.	
May 26, 1919	32.00	May, 33.40 cents.
July 14, 1919	34.25	July, 35.50 cents.
Oct. 22, 1919	36.88	October, 37.52 cents.
Dec. —, 1919	40.00	December, 40.85 cents.
Jan. 22, 1920	39.75	January, 40.30 cents.
Mar. 18, 1920	41.00	March, 40.10 cents.

Mr. RANSDELL. This tabulation is not intended to convey the idea that the relationship between spots and futures exists every day during the option of the months traded in, but does conclusively show that at some time during the life of the option the close relationship between spots and futures actually exists.

The amendment of March 4, 1919, from the foregoing facts appears to have established the extreme relationship between contracts and spot quotations, and any effort to further restrict the percentage of grades tenderable would create a fictitious value for contracts; and while the Comer amendment would put up the price of future contracts, they would be of no value to the trade any more than the price of a specialaty like sea-island cotton, which is a very small percentage of the crop grown, reflects the price obtainable for the great bulk of the cotton crop.

Discounts between near months and distant positions in the cotton market have existed for some time. I may mention that at times during preceding seasons even when cotton was as low as 9 cents per pound compartaive discounts existed. The explanation of this fact is purely psychological. At all times a great many consumers have no confidence in prices; therefore to induce them to buy to fulfill their commitments for a future date one must discount the price. The illustration above given of the close relation existing at times during the current month between spots and futures proves that those who have sold discounts have paid the penalty. This has

been the rule rather than the exception since 1914, the price of cotton continually advancing from below 6 cents per pound to over 42 cents per pound for middling cotton.

Dealing in cotton is not an exact science, nor is the hedge afforded by the contract market a complete protection, but it is as good a price insurance as any insurance company would underwrite for fire or other risks. Further, the Smith-Lever bill as amended March 4, 1919, under section 10, permits the trading in specific grade contracts, and if any buyer can find a seller who will sell him such a contract upon the exchanges he is permitted to conclude such a contract.

Mr. President, I ask permission to print section 10 as a part of my remarks without reading.

The PRESIDING OFFICER. Without objection, it is so ordered.

The matter referred to is as follows:

"SEC. 10. That no tax shall be levied under this act on any contract of sale mentioned in section 3 hereof if the contract comply with each of the following conditions:

"First. Conform to the rules and regulations made pursuant to this act.

"Second. Specify the grade, type, sample, or description of the cotton involved in the contract, the price per pound at which such cotton is contracted to be bought or sold, the date of the purchase or sale, and the time when shipment or delivery of such cotton is to be made.

"Third. Provide that cotton of or within the grade or of the type, or according to the sample or description specified in the contract shall be delivered thereunder, and that no cotton which does not conform to the type, sample, or description, or which is not of or within the grade specified in the contract shall be tendered or delivered thereunder.

"Fourth. Provide that the delivery of cotton under the contract shall not be affected by means of 'set-off' or 'ring' settlement, but only by the actual transfer of the specified cotton mentioned in the contract.

"The provisions of the first, third, and fourth subdivisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the document or memorandum evidencing the same, at or prior to the time the same is entered into the words 'Subject to United States cotton futures act, section 10.'

"This act shall not be construed to impose a tax on any sale of spot cotton.

"This section shall not be construed to apply to any contract of sale made in compliance with section 5 of this act."

Mr. RANSDELL. This contract you will perceive is infinitely stronger than that provided in the Comer amendment, but it was never intended and has never been used as a price insurance but to permit the trading in specific grades of cotton under the rules of the exchanges and the rules and regulations promulgated by the Bureau of Markets.

Specific contracts permitted under section 10 are traded in largely between producers, merchants, and spinners, but have never been used as price insurance because no seller will undertake the restrictions of such a contract, and consequently no one can buy them across the pit.

In the Congressional Record of April 17, Sixty-sixth Congress, second session, Senator Comer, in discussing his bill, is quoted as follows, pages 6234 and 6235:

"The exchanges have not sold a bale of middling cotton in years. They do not intend to sell that kind of cotton. There has not been any middling or above delivered to the exchanges for years. I say notwithstanding this, through the demand of the spinners for that class of cotton, the high grades are much higher relatively than the low grades, which do pass through the exchanges.

"The low grades pass through the exchange, and they themselves say it is too low, too comparatively low. The high grades do not pass through the exchanges at all. The price is made by the demand, just like all other prices on all commodities are made."

Of course not; the Cotton Exchange of New Orleans does not buy, sell, or deal in cotton at all. It is an institution through whose medium and rules and regulations under the supervision of the United States Department of Agriculture, trading is cotton is facilitated. I presume that the Senator from Alabama [Mr. Comer] refers to transactions made on the exchange between members in receiving and delivering cotton on future contracts under section 5.

May I ask the Senator from Alabama if that is not what he meant? Of course, the Senator did not mean the exchange itself dealt in cotton; he meant contracts between members of the exchange.

Mr. COMER. I also meant what I said in that speech, that in tenderable cotton while the five upper grades were tenderable, it was not used for tender; that the lower grades were used. For instnace, we got 200 bales this week, and I dare say there was not a single grade of middling and above.

Mr. RANSDELL. Does the Senator mean the lower grades were not certificated?

Mr. COMER. Oh, yes; they are certificated, but the basis middling is so much lower than the price of middling that they deliver the lower cotton and let the higher cotton go by the boards.

Mr. RANSDELL. I am glad to have the Senator's definition. In order to prove the inaccuracy of the Senator's statement, I submit the figures obtained from the Bureau of Markets of cotton classified and certificated from March, 1919, to December 1, 1919, on the New Orleans Cotton Exchange:

	Bales.
Middling fair	3
Strict good middling	399
Good middling	3,226
Strict middling	6,071
Middling	5,866
Good middling, tinged	232
Strict middling, tinged	121
Good middling, yellow stained	2
	15,920
Strict low middling	3,442
Low middling	1,382
	4,824
Grand total	20,744

Therefore, it will be seen that out of 20,744 bales, 15,920 bales of middling and above and 4,824 bales below middling have been certificated by the Bureau of Markets in New Orleans since the adoption of the Smith-Lever bill, as amended March 4, for the period above mentioned. This should dispel any idea that this exchange is used simply for the purpose of tendering undesirable low grades to depress the value of the balance of the cotton grown.

I may mention that the Liverpool cotton market has adopted and is now trading in the same contract as that traded upon in the American exchanges to-day under the Smith-Lever bill, as amended March 4, 1919, and there is no assurance that Liverpool would change their contract, assuming that Senator Comer's proposed amendment should become a law. I refer to Liverpool because over 50 per cent of our crop is exported and is settled for through the rules of the Liverpool Cotton Association. Surely a large bulk of this business which has been put through for next fall and winter should at least enjoy the advantages of being finally liquidated without having the price insurance on which the business was originally based entirely changed.

Several large organizations have expressed their opinions on the Comer amendment. The board of directors of the American Cotton Association, in convention at Montgomery, Ala., during the week beginning April 11, instant, passed the following resolution:

"Board of directors recommends this matter be referred to new committee on legislation enactment with instructions that said committee shall make a full investigation of the matter and make recommendations to executive committee. The executive committee shall instruct said legislative committee in the premises after a full hearing has been given all parties in interest—"

I hope the Senators will listen to this. The board of directors of the great American Cotton Association advise that a "full hearing" be given all parties in interest—

"on the merits of the proposed legislation, due and proper notice of which hearing shall be given before action is taken by executive committee."

Mr. COMER. Mr. President——

The PRESIDING OFFICER (Mr. Henderson in the chair). Does the Senator from Louisiana yield?

Mr. RANSDELL. Let me complete this statement, and then I shall yield.

Mr. COMER. Very well.

Mr. RANSDELL. Notwithstanding this wise policy suggested by the board of directors the convention itself on its last day, with only a small percentage of the attendance present, passed a resolution by a vote of 16 to 15 indorsing the Comer amendment. The closeness of this vote indicates the great differences of opinion existing over this important question.

I wish now to read an extract from a letter to me from Mr. T. J. Appleyard, jr., of New Orleans, campaign director of the Louisiana division, American Cotton Association, dated the 22d instant. I do not know Mr. Appleyard very well; I have met him

several times, and he is a very agreeable gentleman. I do not think he is a citizen of Louisiana unless he has recently become so; but he is certainly a very bright, intelligent man. He states:

"While the vote"—

On the Comer amendment—

"was not a representative one in that the attendance at the convention during the last day was simply a matter of about 50 men, and while the amendment was favored by the convention, so far as the vote by States was concerned, yet I can not feel that it in any wise represents an expression of the actual membership of the organization for this reason, that in totaling the number of members that each State is now supposed to have on its roster, by the vote of Arkansas, Louisiana, Mississippi, North Carolina, and South Carolina, 31,445 members expressed themselves as against the amendment, whereas Alabama, Florida, Georgia, Oklahoma, and Tennessee, voting in favor of the amendment, only expressed the opinion of 2,545 members of the association. Perhaps this may be interesting information for you."

Then I have a very brief extract from a statement made to me by Mr. W. M. Steele, of New Orleans, a former newspaper man of very high grade, who attended that convention as publicity manager or director of the Louisiana division of the cotton association. Here is what he says about that vote of 16 to 15. The Louisiana division, Senators, is a very large one. Here is what Steele says about the way the vote was obtained:

"Questions arose as to the apportionment of the vote of the States, and no one seemed to have the correct or official apportionment. Finally the vote was taken on the basis of an undisputed apportionment in a vote of the day before, and resulted in the adoption of the indorsement by a vote of 16 to 15, as follows:

"For amendment: Alabama, 3; Florida, 1; Georgia, 5; Oklahoma, 4; Tennessee, 3; total, 16.

"Against: Arkansas, 3; Louisiana, 3; North Carolina, 3; Mississippi, 2; South Carolina, 4; total, 15."

According to the statement of Mr. Appleyard, the overwhelming majority of the members of the cotton association, represented at the convention, so far as the State rosters go, was against the amendment. It was carried by a majority of one. How was that majority secured? By allowing Tennessee 3 votes and giving to Mississippi only 2 votes. Everybody knows that Mississippi raises a great deal more cotton than Tennessee. That was an unfair apportionment. However, be that as it may, Mr. President and Senators, that vote of 16 to 15 indicates that, among the producers of cotton in the greatest cotton convention ever held in America—I had the pleasure of attending its sessions for three days, and I have never seen a better gathering of cotton growers, from practically every State in the South—at that convention there was a majority of only one favoring the amendment; and the directors of the association at that great convention, passed by a practically unanimous vote—so far as I am informed—a resolution suggesting that the whole matter be referred to the future, and that both sides be given a chance to be heard. So it can not be said that the association went on record as favoring the Comer amendment.

I now yield to the Senator from Alabama.

Mr. COMER. I should like to ask if Mr. Thompson was not there and most active in the arrangement, direction, and management of the convention?

Mr. RANSDELL. Yes; Mr. Thompson was there, and he was very active indeed. Mr. Thompson is always found where there is being discussed any matter affecting cotton interests. When anything tending to promote the upbuilding of American cotton, production on the farm, and the interests of the farmer is under consideration, Mr. Thompson is there with his wise head and eloquent voice speaking for the American cotton farmer. I have heard him time and again.

Mr. COMER. And for the cotton exchange?

Mr. RANSDELL. Possibly he speaks for the cotton exchange; it would be strange if he should not, for he used to be president of the exchange; he is now one of its prominent members, and that exchange is one of the big institutions of the greatest city in the South. No man, however, can intimate or indicate that W. B. Thompson is not as honorable, high-toned a man and as strongly inclined to do right as any other citizen of America. I hope the Senator from Alabama does not mean to intimate to the contrary.

Mr. COMER. He had a great deal to do with that convention; that is the very thing I am talking about.

The PRESIDING OFFICER (Mr. GAY in the chair). Does the Senator from Louisiana yield to the Senator from Alabama?

Mr. RANSDELL. I yield to the Senator from Alabama for a question.

Mr. COMER. I have here a letter from ex-Senator Frank S. White, who was a Member of this body, and one of the finest men of whom I know. He is running for election to the Senate to succeed the late Senator Bankhead, and I trust he will be elected, because I do not know of a better man. I will ask the Senator from Louisiana if he will allow me to read the letter now?

Mr. RANSDELL. I do not wish to yield my time for the reading of a long letter. When the Senator replies to me, if he cares to do so, he can read the letter.

The PRESIDING OFFICER. The Senator from Louisiana yielded to the Senator from Alabama for a question.

Mr. RANSDELL. I decline to yield my time for the reading of a long letter.

Mr. COMER. It is a short letter, and simply tells that Mr. Thompson and the exchange crowd with him took hold of that convention and ran it to the best of their ability. I should like to have the letter read.

Mr. RANSDELL. The Senator can put it in the Record in his own time. I shall have no objection to his doing so; but I will say that I was at the convention, and Mr. Thompson was there and took a very active part; but I can not conceive of anyone intimating that any man, no matter how able, could run that magnificent aggregation of the bone and brawn and intellect of American cotton farmers. I myself would not dare to make any such intimation, and I can hardly believe that the ex-Senator from Alabama, Mr. White, whom I held in very high esteem when we were brother Members of this body, has done so. The Senator, however, can put the letter in the Record, in his own time. I must proceed.

Mr. COMER. I will be glad to put the letter in the Record.

Mr. RANSDELL. Mr. President, I wish also to read an extract from a resolution passed by the Mississippi Valley Association, in convention at St. Louis on the 20th instant, just a few days ago. The resolution was adopted unanimously at a big convention composed of delegates from 28 States, the entire Mississippi Valley being represented. This is the resolution:

"In view of the vital importance to the cotton producers and other cotton interests of the Mississippi Valley and that of the Nation, we respectfully request and urge that no final action be taken on the Comer amendment to the Agricultural appropriation bill without a full and public hearing."

Senators, can such a request as that be denied? What caused our Revolutionary ancestors to break away from Great Britain 145 years ago? What caused us to enter into the mighty struggle which gave freedom to this Republic but the refusal on the part of Great Britain to allow us any hearing whatsoever in the British Parliament, which taxed us without representation and without a hearing? The people of the Mississippi Valley ask for a hearing before Congress undertakes to repeal a most important law, a law which, to my personal knowledge, was considered for months and months before its enactment. We did not pass the Smith-Lever bill hastily. We considered it in the committees of the House and of the Senate; we considered it on the floor of each body for a long time. Members of the Agricultural Committee know the absolute truth of my statements. Now we are asked to repeal that important law by an amendment submitted on the floor of the Senate for the first time, when Senators like Ellison Smith, of South Carolina, whose name, in conjunction with Congressman Lever's, was given to the great piece of legislation which it is now proposed to repeal, was absent from the Chamber; when Hoke Smith, of Georgia, was absent; and when I, too, was absent from my seat. I make no charge of any improper action on the part of the Senator from Alabama in bringing up the amendment at that time. He had a right to do so. It was perhaps our duty to have been here; but unfortunately we were called away. I am, however, simply stating the fact that we were not here, and this measure came up in our absence. It completely changes, I repeat, a most important piece of carefully considered legislation. It is not right, Senators, to put such a measure through without a hearing, and all we ask is that it be heard fully and fairly.

I am not a specialist on these matters; the proposed legislation may be good; but, so far as I have been able to study it, I do not think so. However, I may be wrong. I am in the position here of a lawmaker, willing to listen to all the arguments pro and con on this subject; willing to have a special committee, if necessary, appointed to study it. It affects vitally the greatest money crop on earth, the cotton crop of the South, which for years has given this country such a wonderful balance of trade; and it is most unwise, unbusinesslike, and unstatesmanlike to legislate on a measure of this magnitude without a full hearing of both sides.

Mr. President, I will now read a few lines from a letter of Hon. John M. Parker, recently elected governor of my State, to whom I have just referred. It is dated New Orleans, April 13, 1920, and is addressed to Hon. L. Lazaro, House of Representatives, Washington, D. C. It was published in full in the Congressional Record of April 19, page 6319, so I will merely read an extract from it:

DEAR DR. LAZARO: From what I understand of the Comer amendment, it provides that at least 50 per cent of any cotton tendered for delivery on contract in the New York or New Orleans markets shall be middling or above, the remainder to be of any other of the standard grades, at option of deliverer. This would tend to restrict the quality and character of cotton that is tenderable on contract and would naturally handicap the deliverer and benefit the receiver. The result would be a contract more favorable to the spinner and possibly less favorable to the producer. It would probably enhance the value of the contract as compared with the spot basis.

Any further restriction as to the kind of cotton that may be delivered on contract will naturally make that much less ready outlet for the producer.

Could anything be stronger from an honest conservative than that statement of Governor-elect Parker? Furthermore, I am informed that at the Mississippi Valley convention in St. Louis on the 22d Mr. Parker delivered a strong speech and spoke in unequivocal language in opposition to the Comer amendment, insiting upoon delay in regard to it.

Mr. DIAL. Mr. President——

The PRESIDING OFFICER. Does the Senator from Louisiana yield to the Senator from South Carolina?

Mr. RANSDELL. I yield.

Mr. DIAL. My views on this amendment have already been expressed upon the floor of the Senate some time ago; but the Senator stated a while ago that he would as soon trust his interests to the cotton exchange as he would to the spinners of this country, the manufacturers, and I see occasional references in this letter of Mr. Parker's trying to create a prejudice against the mills.

I want to say to the Senator that I am interested in milling myself, not only in farming but also in manufacturing, and that I know of no higher class of men in the United States than the presidents of cotton mills in the South. I know pretty well when this industry was started; I remember the first modern mill that was ever built in South Carolina, and I do not claim to be very old. The mills have been built up by home people, home capital, a large amount of it being furnished by the farmers themselves, and they have conferred a great benefit on the producers in making a market for their cotton; so I resent any insinuation whatever that the manufacturers are in any way tricky or in any way unreliable.

I have no war to make on the exchanges, when conducted in a proper way, but the manufacturers of this country could not manipulate the market if they were disposed to do so. I do not deny that they want to make money, the same as the farmer, the same as the merchant, the same as the doctor or the lawyer or anybody else; but if they were disposed to try to take any undue advantage in buying cotton they could not do it. They have to compete with the world. The United States has to compete with England, and Liverpool, as the Senator knows, fixes the price of cotton. We compete with Japan and we compete with the whole world, and the manufacturers of the North are in the same position as those of the South.

In our country, in my State, where we now manufacture about the amount of cotton that we raise—I do not think this enterprise has grown to such a great extent in the Senator's State; they have, I believe, a mill or two in New Orleans—in my country it is a great industry. We have large stockholders. The stockholders get together and they want to build a mill to benefit their community and to make a market for their produce. It is not only for their cotton, but for their trucking and other interests, and no other industry in modern times has developed the country as manufacturing has developed the South. So his remarks, if he means any reflection whatever upon that kind of industry, are entirely out of place and uncalled-for and unjustifiable.

Mr. RANSDELL. Mr. President, the Senator from South Carolina can not point to a single word uttered by me in reflection on the spinners. I have not uttered one word in criticism of the spinners, and no one who heard what I have said could infer such a thing. I have said, and I repeat—and I have spinners in my State, though not as many as the Senator from South Carolina has—that the interest of the producer to get a good price for his product is one thing and the interest of the man who spins that cotton into cloth for sale is another thing. That is all I have said, and the Senator can put that in his pipe and smoke it, if he wishes. I have not intimated anything derogatory against the spinner, nor would I do so. I have tried to show that the cotton exchange is composed very largely of merchants who are interested in getting a good price for the cotton of the farmer, and believe I have shown to any fair mind that the spinner is interested in buying this cotton as cheaply as he can. I do not mean to reflect on anyone.

Mr. DIAL. Mr. President, I have such a high regard for the Senator from Louisiana that I did not suppose he would intentionally reflect upon anyone; but the colloquy

came about in his answer to the Senator from Alabama [Mr. Comer], in which he said that the Alabama Senator accused the cotton exchange of manipulation, and the Senator from Louisiana said that he would as soon trust his interests in the hands of the cotton exchange or the cotton broker as he would in the hands of the manufacturer.

Mr. RANSDELL. If the Senator considers it a reflection on the spinner to say that I would as soon trust these honorable men of my State as the honorable men of this State, I certainly have no excuse or apology to make for that remark. I stand by it, but I again say that I did not intend any reflection on the spinners.

Mr. DIAL. Very well. I am glad the Senator did not mean any reflection. I did not think he did.

Mr. RANSDELL. I certainly did not; but I again say that I would rather trust my individual cotton to the hands of the men who are interested to get just as much as they can for it, because they sell on commission, than to people who are buying it to manufacture.

Mr. DIAL. Mr. President——

The PRESIDING OFFICER. Does the Senator from Louisiana further yield to the Senator from South Carolina?

Mr. RANSDELL. I decline to yield further. Let the Senator speak in his own time.

Mr. President, the Senator from Alabama has read from a letter of a nice man in the State of Mississippi, whom I know and esteem. He is a friend of mine—Mr. Helgason. I think he is mistaken in the views he has on this bill, but we can not all agree. I have here, however, a letter from another very good man in Mississippi, Mr. A. B. Learned, of Natchez. Nobody in the State of Mississippi stands any higher than A. B. Learned. If the Senator from Mississippi [Mr. Harrison] were here, or any of its Members of Congress, they would confirm what I say about him. He owns some property in Louisiana, but his home is in Mississippi. He is a big manufacturer of lumber, as well as a banker and cotton grower. He wrote me from the city of St. Louis on April 19, 1920. I do not know what cotton-exchange people may have influenced him to write this letter. Perhaps he was enticed to do so by some of those fellows from New Orleans who belong to the cotton exchange; but, at any rate, he wrote this letter:

HOTEL STATLER,
St. Louis, Mo., April 19, 1920.

Senator JOSEPH E. RANSDELL,
Senate Office Building, Washington, D. C.

DEAR SENATOR: I just had my attention called to the fact that Senator Comer has introduced an amendment to the Agricultural appropriation bill, and that it has gone to conference, which, if it becomes a law, will require that 50 per cent of cotton tendered on contracts must be of a grade of middling or above, and 50 per cent below middling.

As a cotton planter of your State—

I think this gentleman owns some plantation property over in Concordia Parish and possibly some in Tensas Parish—

it strikes me that this would be extremely detrimental to the interests of the growers. To get the other side of the matter, I asked my friend, Mr. J. W. Sanders, who manages and practically owns the cotton mills at Meridian, Kosciusko, Yazoo City, and Natchez, what he thought of it. He replied that it would be strictly to the interests of the cotton mills manufacturers, but would be very detrimental to the grower. The differential between the price of middling and low middling is now about 8 cents, while the actual spinnable difference is only about 2 cents or 3 cents. Mr. Sanders confirms my opinion that the 8-cent differential would be very greatly increased if the Comer amendment became a law.

Your own experience the last few years has shown you that frequently the crop will not go as much as 50 per cent middling and above, and the last two years it has been much less than 50 per cent. Yet, under the Comer amendment, all in excess of 50 per cent would be outlawed.

I wish you would think this matter over seriously, and if possible see that the cotton-growing interests are given a full hearing before the amendment is allowed to become a law.

Sincerely, yours,

A. B. LEARNED,
Natchez, Miss.

I now ask permission, without reading, to insert in the Record an able editorial on this subject, entitled "Comer praises his pet," which appeared in the Times-Picayune of New Orleans under date of the 27th instant.

The PRESIDING OFFICER. Without objection, the editorial will be printed.

The editorial is as follows:

[From the Times-Picayune, New Orleans, La., of Apr. 27, 1920.]

COMER PRAISES HIS PET.

Recently the Times-Picayune went to the defense of the cotton interests of the South in opposition to a measure, both fathered and mothered by United States Senator B. B. Comer of Alabama, designed to permit cotton spinners to skim the cream off of the cotton crop and leave the milk as a by-product in the farmers' hands, without a definite market and minus the protections now thrown around many hundreds of thousands of bales of merchantable, spinnable cotton. As we explained in our editorial, Senator Comer is a prominent—a millionaire—spinner, and the term "spinners' contract" was long ago accepted as a trade term in the cotton business meaning but one thing—a contract worded to place the whip handle in the mill man's hand wherewith to drive those who plow and plant and work and harvest the South's great crop.

We pointed out some reasons why the Alabama legislator was taking an astigmatic view of the South's interests, and in our position, we scarce need add, we are in accord with the great majority of the cotton growers of the South. Those who take Senator Comer's view are very largely those near enough the cotton-mill districts of the Appalachian slope to come under the influence of mill domination.

Our editorial evidently touched the quick, for the Senator arose in the Senate Chamber and went into an extended discussion of his proposed measure and "strafed" violently all who would not remain blind to the trap set by his reenforced "spinners' contract."

The Senator's argument, and a one-sided discussion by others from the mill sector, brought out no new facts, and by their involutions and deviations managed to avoid the real point of our criticism. In fact, we only wish we commanded editorial space to give the Senator's talk paragraph by paragraph in order to point out seriatim their faulty reasoning.

The germ of his defense, apparently, was that the exclusion from tenderability on contract of cottons grading below middling would tend to stabilize contracts by forcing spot cotton and futures into a closer unity of price. This, Senator Comer said, would make hedges safer and, as he saw it, would benefit all branches of the trade.

Now, if the latter fact is true, pray how would the planter benefit who, by the chances of season and fate, had produced a crop of cotton that would grade below low middling and middling? According to the "Comer rider," this cotton, in spite of the fact that Senator Comer's own six cotton mills do spin such staple, would remain in the planter's hands until taken at their own price by buyers from the Avondale Mills or some others of their kind. We say "at their own price," because, having grown cotton grading below the tenderable limit, the planter would be unable to protect his holdings by hedges, and without such hedges could not borrow on his holdings and await a better market.

One of Senator Comer's first statements was that his company had made use of 25,000 bales of hedges during the season. Presumably this was not done merely as a pastime but because such transactions had a value—as, indeed, they most certainly had—and yet by means of his "rider" the Senator is striving to take away from the trade at large the possibility of such hedges in transactions involving many hundreds of thousands of bales of cotton now protected under the Lever law.

In his effort to make a point the speaker returned to an outworn attack on the cotton exchanges, although his own statement as to the value of the hedge was enough in itself to disprove the old contention. Indeed, one has but to hark back to those distressful months at the beginning of the war, when the exchanges were closed, to recall in what an impasse the planters found themselves when there were no exchanges open to serve as a clearing house for cotton prices. We recall the "buy a bale" campaign, and the values that went almost to nothing at all because there existed no machinery to harmonize beliefs and melt them into that consensus that would determine price.

"It is buying and consumption," said Senator Comer, "that make the price. It is not the power of tendering it on the exchange."

In reply to that, and in its disproof, we have but to quote the statistics showing that the spread between good ordinary and middling cotton in 1918, when the former

own interest is as a cotton producer. I do not entertain the idea that there is anything sinister in the amendment or that it is designed to operate in favor of the spinners. It is a pleasure to find a law proposed by one who has made a careful study of the subject, as you have evidently done. The ends which we both desire are the same.

"Cordially, yours,

"LE ROY PERCY."

Mr. MOSES. Mr. President, will the Senator yield to me for a question?

Mr. RANSDELL. In just one second I will yield. I wish to indorse most heartily the closing paragraph of this letter of Senator Percy. I know not whether the amendment is going to produce good. I certainly do not believe that the able and honorable Senator from Alabama had any sinster motive in offering it. I am certain that he did not. I am making no charge against the spinners. I am simply asking that this great question be studied with care, every opportunity being given to both sides to be heard before it is acted upon.

I now yield to the Senator from New Hampshire.

Mr. MOSES. I understood the Senator a short time ago to state that at a convention of cotton growers held last week in Alabama it was set forth that the manufacturers could well afford to pay 60 cents a pound for their product.

Mr. RANSDELL. I said that they passed a resolution saying that in substance. They did not state cotton ought to bring 60 cents a pound, but that, considering the prices at which the manufactured products are being sold, the manufacturers could well afford to pay 60 cents a pound for raw cotton. That was said in that convention.

Mr. MOSES. In the course of the discussion which took place in that convention was there given any basis of cost of production of the finished textiles which led to that conclusion?

Mr. RANSDELL. I did not attend that meeting of the convention, and can not say whether there was or not. I know that a great many people were there from the big cotton manufacturing States of North Carolina, South Carolina, Georgia, Alabama, and Mississippi, all of which manufacture a considerable amount of cotton. I met some of the manufacturers myself, but I was not present at the meeting where this resolution was passed, and I can not say what discussions were held in regard to it.

Mr. MOSES. Nor can the Senator state whether the manufacturers who were there offered any protest against this effort?

Mr. RANSDELL. I can not say that. All I know is that the resolution was passed.

Mr. MOSES. I merely wish to remark, Mr. President, that if that price were to obtain for cotton, I happen to know of a single manufacturing establishment in the State which I have the honor in part to represent where the raw material for a year's supply would be increased about $30,000,000, if such an increase should take place as the Senator has indicated.

Mr. RANSDELL. In conclusion I wish to state that the Smith-Lever bill as amended March 4, 1919, is the result of several years of careful study and consideration of the subject and that the cotton-future market and the cotton trade generally, including the producer and spinner, are enjoying a period of great prosperity.

I am opposed to the Comer amendment, for I maintain that it will have the opposite effect upon the producer than that which Senator Comer contends. If such a bill is enacted into law, the trading in price-insurance contracts will become so restricted as to ultimately destroy entirely the functions of cotton exchanges as useful and necessary bodies in the trade at large.

The Comer amendment should be given a general hearing of all interests in every branch of the cotton trade before the proper committees of Congress. If after such a hearing and due investigation it is found that it has the merits claimed for it by its author and adherents, it should be enacted into law. On the contrary, if it has no merit, and I contend that it has not, it should be discarded, certainly for the present.

* * * * * * *

Mr. COMER. The Senator from Louisiana quoted extensively from State Senator Percy. I will say that the Senator from Mississippi [Mr. HARRISON] told me that Senator Percy was opposed to the bill, and I wrote to Senator Percy, who is a friend of mine—I am very fond of him—to know about it and inclosed a copy of the amendment in my first presentation. His reply was inserted in the Record by the Senator from Louisiana [Mr. Ransdell], with my consent. I think he was very clear on the question. But I wish to call the attention of the Senator from Louisiana to the closing sentence of Senator Percy's letter:

"However, I do not believe that any grave disaster would result from the adoption of the amendment."

Note that:

"However, I do not believe that any grave disaster would result from the adoption of the amendment."

If that statement is true—and the Senator quoted it from him and said he was smart enough to know what he is talking about—that contradicts every statement the exchanges have made—every one. If that statement is true, if Senator Percy has diagnosed the case right—that the amendment is not sinister, that it will not hurt the exchange—then I charge that the whole argument falls to the ground as a result.

The Senator has quoted him as a guide in the matter; he has quoted him as one who is competent to guide; and yet he says the amendment is not sinister; but in every argument the exchanges have made they say the amendment is sinister; that it will destroy the cotton exchanges and do great injury to the cotton business. That is what they say. The Senator from Louisiana has quoted ex-Senator Percy injudiciously. I think he made a mistake in quoting him at all. He said:

"My own interest is as a cotton producer. I do not entertain the idea that there is anything sinister in the amendment or that it is designed to operate in favor of the spinners."

And yet these are the very things they have been asserting. The whole fabric of the opposition is based on the amendment being sinister and operating in favor of spinners. I repeat, the Senator from Louisiana quoted ex-Senator Percy injudiciously.

Mr. RANSDELL. Has the Senator from Alabama finished quoting the letter of ex-Senator Percy? If so, I desire to ask him a question.

Mr. COMER. Anything the Senator from Louisiana desires to ask me I shall be very glad to answer. He was very kind to me the other day, and he may ask me anything he pleases and take as much of my time as he desires.

Mr. RANSDELL. I thank the Senator from Alabama very much. The Senator says that I have quoted Senator Percy incorrectly. In reply I desire to state that I quoted ex-Senator Percy's entire letter. The Senator from Alabama will admit that, will he not?

Mr. COMER. Yes, sir.

Mr. RANSDELL. I quoted every word of the letter except a personal allusion in the closing paragraph in regard to the Senator from Alabama hunting with ex-Senator Percy, and I knew the Senator from Alabama did not desire that I should include that. However, I quoted everything that bore on this subject, and let us now see whether I quoted him incorrectly. He says:

"I believe that the amendment to the present contract would make dealings fewer and the frequency of transactions on the exchanges is beneficial to the producer simply as affording information as to prices and their fluctuation. Since the present contract has been made"—

I assume that he alludes to the Smith-Lever law contract. That law was passed in 1914, reenacted in 1916, and an amendment to it adopted in 1919. I assume that that is what he means by "present contract." I continue reading from his letter—

"there has been no breaking of the market on tenders in any considerable amount of spot cotton. To make the contract harder to fill for the seller would lessen the number of transactions, and would in all probability make the contracts reflect a higher value than the average value of spot cotton that the trade has become accustomed to; furthermore, the trade has become accustomed to the present contract, and it is the same contract which is in use in Liverpool. I do not believe it would be made a better barometer in reflecting the prices of the actual cotton by the amendment."

It seems to me words could not indicate more plainly than those that ex-Senator Percy is opposed to the amendment of the Senator from Alabama. He thinks that if the amendment should be adopted it would not afford a "better barometer." He does add the words to which the Senator refers, that he does not believe the Senator's motives were sinister, and I desire to say to the Senator from Alabama that I do not believe his motives were designing. I believe he was perfectly sincere. Ex-Senator Percy says that as a producer of cotton he does not think the contract would be bettered; that the amendment would make it more difficult of fulfillment; in consequence would lessen the number of transactions on the exchanges; and finally destroy the contract to which the trade is accustomed—the same contract used in Liverpool, the cotton center of the world. Those are the important points of his argument against the Senator's amendment and explain why I read the letter. Ex-Senator Percy, well versed in the trade practices, is a very able man and a very large producer of cotton.

Mr. COMER. Mr. President, I am very glad that the Senator from Louisiana does not think my motives were sinister or doubt my perfect sincerity in the matter.

In reference to the question as to whether or not it would reduce the number of sellers, that is not a very great factor anyway. I do not myself believe there would be as many gamblers on the market; I mean that class who only go in when they have an unlawful advantage, which is not unlike a marked card or loaded dice game. I myself do not believe that there would be a greater combination to bear the market. That is the very thing against which we are fighting. If you want to encourage such gambling in cotton it can be accomplished under the present system. This is why the exchanges are fighting the amendment, but if it is desired to secure fair dealing and stabilize prices, so that anybody can go into the business with perfect safety, I mean so far as the gambling is concerned, then we should amend existing legislation; and the amendment which I have offered is not detrimental to any interest.

I am glad the Senator from Louisiana has again laid stress on the letter of ex-Senator Percy; but if the Senator will excuse me, he did not read the letter accurately. He said that I had not done anything which was sinister, but the letter itself says that the amendment is not at all sinister. Mr. Percy says the amendment is not going to hurt; he means the amendment will not hurt the exchanges themselves and nothing can hurt them so long as there is honesty in business. That is just exactly what the amendment is meant to accomplish.

Mr. RANSDELL. Will the Senator yield for a question?

The PRESIDING OFFICER. Does the Senator from Alabama yield to the Senator from Louisiana?

Mr. COMER. Certainly.

Mr. RANSDELL. The Senator continues to emphasize the point against gamblers. Does he mean to say that ex-Senator Percy is a gambler in cotton? Is that the purport of the Senator's argument? Ex-Senator Percy is very much opposed to the amendment of the Senator from Alabama. Now, does the Senator from Alabama pretend to say that ex-Senator Percy is a gambler? Mr. Percy says he is a producer of cotton, and he makes the point that, as a producer of cotton, he is opposed to the Senator's amendment.

Mr. COMER. Mr. Percy certainly is not the kind of gambler that this amendment is designed to checkmate.

Mr. RANSDELL. It may be that some of us who are producers of cotton also bet. I rather think the Senator from Alabama himself said he had bought some futures. He told us about a trade between himself and one of the New Orleans merchants, in which he said, in substance, that he had been treated very badly by that merchant, from whom he bought 100 bales of cotton. I tried to get the Senator to tell the Senate who sold him that 100 bales, but he failed to do so. So ex-Senator Percy may be a speculator, but he could hardly be called a gambler, I imagine. I should very much dislike to have that term applied to him.

Mr. COMER. Mr. President, I am glad the Senator from Louisiana has mentioned the transaction in New Orleans to which I formerly referred. I am going to state the figures to the Senator, if he please.

Mr. RANSDELL. I shall be delighted to hear them, but I wish the Senator would first tell me whether ex-Senator Percy is a gambler.

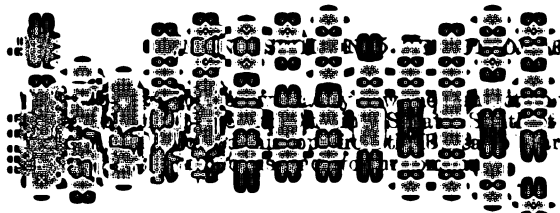
Mr. COMER. The Senator from Louisiana must not be personal, if he please. I will ask him, however, if he ever knew a man from the Delta of the Mississippi who was not a gambler or sportsman enough to take a chance?

Mr. RANSDELL. I can look into the mirror and see one. I live in the Delta of the Mississippi, and I am not a gambler.

Mr. COMER. The Senator must feel very lonely sometimes.

The hundred bales of cotton of which I spoke and concerning which the Senator inquires were bought through the Howell Cotton Co., of Birmingham, Ala., and were delivered through Lowrey & Co. at New Orleans. I should like to have the Senator pay particular attention to the figures I am about to read.

Mr. RANSDELL. I shall be delighted to listen.



[illegible] FUTURES ACT.

[illegible] was carried out. I sent a copy [illegible] Georgia, and to the Bureau of [illegible] rkets yesterday. The following [illegible]

J. J. LOWREY & Co.,
[illegible]w Orleans, La., May 14, 1918.

[illegible]ts for account of Howell Cotton

	Weight.	Off.	Amount off.
[illegible]	967	237	$22.92
[illegible]	727	225	16.36
[illegible]	1,641	237	38.89
[illegible]	429	275	11.80
[illegible]	417	200	8.34
[illegible]	496	275	13.64
[illegible]	1,977	237	46.85
[illegible]	502	200	10.04
[illegible]	523	275	14.38
[illegible]	907	275	24.94
[illegible]	851	275	23.40
[illegible]	1,950	237	46.21
[illegible]	572	163	9.32
[illegible]	2,225	237	52.73
[illegible]	1,013	200	20.26
[illegible]	1 450	.....	.....
[illegible]	480	88	4.22
[illegible]rrell	342	219	7.49
[illegible]	559	263	14.70
[illegible]	610	.....	.....
[illegible]	1,684	88	14.82
[illegible]	969	200	19.38
[illegible]	504	125	6.30
[illegible]	2,000	88	17.60
[illegible]	528	113	5.97
[illegible]	341	225	7.67
[illegible]	525	237	12.44
[illegible]	1,543	275	42.43
[illegible]	1,520	225	34.20
[illegible]	2,263	237	53.63
[illegible]	1,653	237	39.18
[illegible]	1,080	275	29.70
[illegible]	1,984	200	39.68
[illegible]	536	200	10.72
[illegible]	476	225	10.71
[illegible]	1,034	237	24.51
[illegible]	1,155	275	31.76
[illegible]	398	288	11.46
[illegible]	1,945	75	14.59
[illegible]	536	100	5.36
[illegible]	419	163	6.83
[illegible]	443	176	7.80
[illegible]	556	288	16.01
[illegible]	1,054	237	24.98
[illegible]	478	275	13.14
[illegible]	916	163	14.93
[illegible]	1,938	325	62.98
[illegible]	1,036	263	27.25
[illegible]	2,488	325	80.86
[illegible]	49,640	.....	1,073.38

[illegible]	$12,881.58
[illegible]	3.84
[illegible]	12,885.42
[illegible]	1,073.38
[illegible]	11,812.04
[illegible]	48.50
[illegible]	8.63
[illegible]	12.75
[illegible]	11,881.92

The total was 97 bales, but the weight made it 100 bales.

Mr. SHEPPARD. From what document has the Senator been reading?

Mr. COMER. I have been reading from the absolute sales sheet from New Orleans of the 100-bale contract as delivered at New Orleans.

Mr. SHEPPARD. Under a contract which the Senator had previously made?

Mr. COMER. Yes, sir.

Mr. SHEPPARD. And what the Senator has read shows what was actually offered him on the contract?

Mr. COMER. Yes; what was actually delivered.

Mr. SHEPPARD. To the Senator on that contract?

Mr. COMER. Yes; on that contract. We shipped the cotton to the mill at Sylacauga and manufactured it. We have mills there that can manufacture any grade. What I have read shows the multiplex assembly and character of cotton that was actually delivered according to a copy of the sales sheet which has been in the Bureau of Markets since last year, I myself having secured a copy from the Bureau of Markets.

Mr. SHEPPARD. Can the Senator put in the record at this point the contract which he made originally, so that we can compare the contract itself with the figures he has given?

Mr. COMER. The contract was for 100 bales of May cotton, bought under the original Smith-Lever bill as amended in 1916 and delivered within the terms of that law.

Mr. RANSDELL. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. King in the chair). Does the Senator from Alabama yield to the Senator from Louisiana?

Mr. COMER. I yield.

Mr. RANSDELL. I should like the Senator to tell us how many bales of that cotton were not spinnable. Was not all of that cotton spinnable?

Mr. COMER. I will go into a full explanation of that. There are mills that can spin anything. In our mills, as I have stated heretofore, we can spin anything from waste to strict good middling. We have two mills which do not use anything below strict middling, and if any of this cotton were shipped to them we could not have used a bale of it. We have three such mills now, which altogether have 80,000 spindles, and if we had shipped every single bale of this cotton to those mills they could not have used a bale of it. There are many mills, Senator, that could not have used one single, solitary bale of this—not one bale—and when they tendered this cotton, made up as you see it was, it was tendered with the knowledge that it could not be used.

Mr. RANSDELL. May I ask how many mills the Senator has that he says could not use that cotton?

Mr. COMER. I say our company has three mills that could not use it.

Mr. RANSDELL. Could it be used by any of your mills?

Mr. COMER. Yes, sir.

Mr. RANSDELL. How many of your mills could use it?

Mr. COMER. My own company?

Mr. RANSDELL. Yes; or your affiliated companies. I do not know how many mills you really have. I understood that you had quite a number—8 or 10, is it not?

Mr. COMER. Our company has eight. I put that in the Record the other day.

Mr. RANSDELL. How many spindles?

Mr. COMER. About 200,000.

Mr. RANSDELL. You say this cotton could have been used by some of your mills?

Mr. COMER. Yes, sir.

Mr. RANSDELL. Then, Senator, could it have been very bad if some of your mills could have used it?

Mr. COMER. That is not the question. The average mill could not have used it. The average cotton mill could not have used a bale of it.

Mr. RANSDELL. But, Mr. President——

Mr. COMER. Wait a minute, please—and when you sell to the trade any industrial commodity that can not be used by the average man, it is wrong.

Mr. RANSDELL. It was all spinnable cotton, though?

Mr. COMER. Spinnable, yes.

Mr. RANSDELL. And some of your mills could have used every bale that was tendered to you?

Mr. COMER. Surely.

Mr. RANSDELL. All right.

Mr. COMER. That cotton was from New Orleans. Here is a statement of some cotton that we received from New York. It was about the same time, and I will be candid with you. The futures act was in controversy, and we made the fight two years ago, and we published statements in the different papers of Georgia, Alabama, and South Carolina, and we carried the fight to the Agricultural Department.

Mr. Houston was Secretary at the time. Anybody is at liberty to take that correspondence and print every line of it. We were fighting for the people's rights, which were being disregarded.

We took up cotton on two contracts in New York and one in New Orleans for the special purpose of showing Congress what was being done under the law of the land. That is what we did it for. We did not have to take the cotton at all, but we wanted to have you see just what was going on, and we sent copies to the Senators from South Carolina [Mr. Smith] and Georgia [Mr. Smith] to show Congress just what was going on; and we demanded, as citizens and representatives of the business of this country, that we should be protected in the right to do a straight, square business. That is what we did. We took up two contracts in New York. I will read from the sale sheet——

Mr. RANSDELL. Mr. President, will the Senator permit a question?

The PRESIDING OFFICER. Does the Senator from Alabama further yield to the Senator from Louisiana?

Mr. COMER. Yes, sir.

Mr. RANSDELL. In order that we may understand the matter clearly as we go along, I wish the Senator would explain whether, in getting supplies of cotton for his mills, he purchases on a specific contract, in which he sets out the exact number of bales and kind of cotton he desires, to wit, middling, or strict middling, or good middling, or strict good middling, or middling fair, or low middling, and so forth. Does he make a specific, definite, concrete contract to be delivered, so many bales of particular grade, or does he depend upon getting supplies for his mills in the future market, on which the basis of the contract is middling?

Mr. COMER. Just as you said just now, Senator. You read Mr. Thompson's letter to Wannamaker, in which he declared that the function of the exchange was not to deliver cotton, but that it was insurance to protect the transactions in cotton. That is what it is for. We buy contracts for insurance or protection, and up to this time I want to show you how closely it was done. Up to April of last year, for quite a while, the exchange market had been running pretty fairly well along with the cotton market; but commencing in May the drop was 5 cents at one time, $25 a bale. It came like a thunderclap on our business; and I say to you, Senator, that a law that allows such transactions as that is wrong.

Mr. RANSDELL. Will the Senator kindly answer my question?

Mr. COMER. Yes, sir.

Mr. RANSDELL. I say, assuming that you need 10,000 bales, or 50,000 bales—I do not know how many bales your mills would use; probably 50,000 bales—if you needed 50.000 bales, then would you make specific contracts to be delivered, those 50,000 bales of particular grades, a certain number of bales per month, or—repeating my question—would you depend upon getting them on a future contract, in the future market?

Mr. COMER. We could either ourselves hedge in the futures market, buying that much cotton for such months ahead as we would like, depending ourselves on buying direct, or from such sources as we saw proper, the spot cotton that we needed, and as the spot cotton was acquired could sell the hedge. In that event there would be no specific grade contract; again, we frequently buy specific grades from a dealer at a specific price, either made on a futures basis month or an absolute price which he has figured as based on a futures month; and this is really the "cream" of the stabilized market, because just as he can safely depend upon the futures market correlated with the spot market, then to such an extent would his contract be insured or noninsured.

Mr. RANSDELL. Then, do I understand the Senator to say that he makes specific contracts or that he does not?

Mr. COMER. We do not make specific contracts on the exchange.

Mr. RANSDELL. I do not mean on the exchange. I mean for the cotton which you need in your business, this 50,000 bales.

Mr. COMER. Thousands of bales of it; yes, sir.

Mr. RANSDELL. You make specific contracts?

Mr. COMER. Thousands of bales, yes; but not on the exchanges.

Mr. RANSDELL. You do not buy on the exchange, except, I presume, to insure or hedge against your actual transactions?

Mr. COMER. That is right.

Mr. RANSDELL. You use it, then, as a medium of insurance?

Mr. COMER. To be sure. That is what it is for. That is its function; and let me tell you, Senator, since you have brought up that question, this last year we all thought that the Smith-Lever bill was going to do. We all thought the amendment had accomplished its purpose and the contract market went along smoothly until last fall. Last summer and early fall the exchange prices were running along with the spot

cotton prices, and there were thousands of dealers who sold middling and above, based on the exchange price. They sold cotton, and then bought futures; but in less than 60 days there was a revolution in the exchanges. Spot middling and above advanced from 200 to 300 points. It went up just like this; and those unfortunate dealers trusting your law for protection had sold spot cotton middling and above, basis contract middling, depending on the proper functioning of the exchanges, because if the last amendment to the Smith-Lever bill lost tens of thousands of dollars, all because the exchanges failed to function as Mr. Thompson says they should.

It was wrong. It was wrong. They had insured in the exchanges. They had a right to expect the exchanges to function in the way the law intended they should function and the right to believe they were protected. Not merely in my section of the country but all through the country those people who trusted in the exchange market as it existed then, and sold the higher grades of cotton, middling and above, suffered because they did not anticipate that the exchanges would permit this great difference between the middling basis and the middling spots—a difference that was artificiously accomplished.

Mr. RANSDELL. Mr. President, will the Senator yield?

The PRESIDING OFFICER. Does the Senator from Alabama further yield to the Senator from Louisiana?

Mr. COMER. Certainly.

Mr. RANSDELL. When you make a contract for middling and ask for specific delivery of the 100 bales under your contract, or the 1,000 bales under your 10 contracts—I believe 100 bales is called a contract, is it not?

Mr. COMER. Yes, sir.

Mr. RANSDELL. Now, assume that you have made a contract for 1,000 bales, let us say, of middling, and the New York Exchange or the New Orleans Exchange attempts to deliver you a certain percentage of that in low middling, for example, or strict low middling, will they not pay you the difference, the commercial difference or a fair difference, between the value of low middling and the value of that which they deliver?

Mr. COMER. If they paid the commercial difference, the differences as actually exist in the spot market and which the Smith-Lever bill intended, it would be right. It would straighten out the whole transaction, but they vary the differences between the grades and the actual difference in the spot market so much that no man can take account of it or guard against it.

Mr. RANSDELL. You mean the trouble is in the practical application of the matter, then?

Mr. COMER. Yes, sir; I mean when you bring it down to practical application, they are not there. That is what I mean.

Mr. RANSDELL. You mean they do not treat you fairly?

Mr. COMER. That is just exactly what I mean. The contract market as at present conducted admits of fictitious differentials between the grades of cotton tendered for delivery.

Mr. RANSDELL. If they do not treat you fairly at the present time, may I ask how you expect to get fair treatment even if your amendment should be adopted?

Mr. COMER. The amendment secures that one-half of the contract shall be middling and above, the tendency will be to make the basis of this contract on the actual spot price middling instead of basis spot price middling, as at present. The present contract basis middling is secured by getting the spot prices from actual spot sales from 10 spot markets on 10 different grades and from it compositing the differentials, making the basis middling, which is impossible.

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Mr. RANSDELL. Mr. President, would the Senator from Alabama permit me to ask a question?

Mr. COMER. Certainly.

Mr. RANSDELL. I wish to ask the Senator from South Carolina what would be the effect in the case he stated if the amendment of the Senator from Alabama be agreed to? How would it materially improve the situation?

Mr. SMITH of South Carolina. The only thing in the premises, I take it, that the Senator from Alabama is striving to do is to so relate the spot and future markets that when one goes up the other goes up, and when one goes down the other goes down.

Mr. COMER. That is where they belong.

Mr. SMITH of South Carolina. I knew that was what the Senator was attempting to do. But as to what effect the amendment would have——

Mr. RANSDELL. That is what I am trying to get at.

Mr. SMITH of South Carolina. As to just what effect the amendment may have on the general price of cotton is problematical, just as it was problematical when I had it

restricted to 10 grades. I expected more benefit in a way, but I had not properly discounted the effect of the Government order. However, it remains to be seen; I do not know just what use those who deal in it will put it to.

Mr. RANSDELL. May I ask one other question in line with this?

Mr. COMER. Yes.

Mr. RANSDELL. The Senator from South Carolina, I take it, has been as great a student of this subject as we have in the country—certainly the most attentive student of it in the Senate—and he says that in his opinion the effect of the amendment would be very problematical. I imagine from that statement by the Senator that although he perhaps has thought a great deal about this matter, and notwithstanding his great knowledge and mastery of the subject, he must be in the greatest doubt as to whether or not we should adopt the amendment.

Mr. SMITH of South Carolina. I frankly admit that I am a bit skeptical at this stage of the game of gratifying results from almost any law we may pass, for the reason that it seems as if there is some way found to evade the specific intent and purposes of the law.

But the purpose for which I rose was to ask the Senator from Alabama if it was his intent in the amendment to so legally bind the spot and future markets together as to make it impossible for one to rise without the other rising, pair fashion, and the decline of the same?

Mr. COMER. I can answer immediately—the very minute that this goes into effect as a law, that then the contract market would base on the middling market or very near to it. At present it is basis middling, which can, as I just showed you, be 4 or 5 cents a pound under the spot market. This will make it basis spot market and basis middling. You will have practically one basis. That is, I think it will operate that way.

Going on with my statement, on March 24 New Orleans had changed positions with New York about 4 cents a pound. Something was wrong, was it not? Then here is the 22d May, New York 40.91, July 38.85. It had changed 2 cents. Then, on April 29, May was 40.20 New York, July 38.20, and New Orleans was 39.20, a cent lower, and it had been running anywhere from three-quarters to a cent and a half higher.

The point is this: New York is now largely functioning, and functioning very close to the spot market. Is anything hurt by that fact? Do you not know it helps them; that if by any means it could be secured that New York and New Orleans should function together on the spot market, then the trouble would be over?

Mr. RANSDELL. Does the Senator think that as a result of his amendment, should it be agreed to, that the differences between the spot and the future markets would become practically the same and that we would have in the futures market substantially the same differences as in the spot market?

Mr. COMER. That is what we are trying to do.

Mr. RANSDELL. Suppose that should be the result; I ask the Senator if that would not so restrict the market that dealers would not invest in these future contracts? Would it not contract and narrow it in such a manner that people would not deal in futures, and therefore the Senator would lose the very insurance that he is seeking to secure?

In other words, he would kill the goose that lays the golden egg, which seems so important to his mills. The Senator finds that he must have an insurance and an insurance medium. The exchanges are the insurance medium. If he so narrows the contract as to restrict and tie the hands of the people who wish to gamble, if you please, or to speculate, who buy contracts from timte to time on the market, will they not be prevented from taking the risk of underwirting the insurance or guaranty the Senator finds so important and essential to his business prosperity?

Mr. COMER. The only business that will be restricted is the gambler who insists on a market allowing marked cards, loaded dice, with which the game is to be played. That is the man we are trying to get rid of, but it will certainly help legitimate trading. In other words, it will multiply the business men who will want to insure their business by legitimate hedging.

Mr. RANSDELL. I should like to assure the Senator that if he can convince me that the cards are marked or the dice loaded, I shall be delighted to assist him in enacting any law that will prevent such dealings, for I certainly have no more in common with transactions of that sort than he has. However, I believe the Senate ought to be assured that in attempting to eradicate this alleged unconscionable system of trading that it does not deliver the death blow to legitimate and necessary business on the exchanges, which, according to the committee report on the cotton futures act, stand as "the only buffer between the helpless producer and the powerful buyer of his product"—the spinner.

Mr. COMER. Convince you? Here you are, sir. We sold, if you remember, 200 bales in New York. This was delivered through Carpenter & Co.; nice people. They did not buy the cotton. They were simply our brokers, our commission house. They took up for us 100 bales of cotton in New York, and here is what they took: Six bales of strict low middling, 11 bales of low middling, 22 bales of strict good ordinary, 3 bales of good ordinary, 4 bales of strict middling tinge yellow, 14 bales middling tinge, 31 bales of strict low middling tinge, 14 bales low middling tinge, 1 bale of middling stains yellow, 1 bale of strict middling stains blue, and 2 bales of middling stains blue. That makes 109 bales. What do you think of that kind of delivery?

I will show you the sequence of that transaction. We both wrote and wired them to sell that cotton, that we could not use it, but they could neither sell nor exchange it.

We telegraphed them:

"Please see if you can get offer to exchange the 109 bales spots for all white cotton, say, average middling; nothing below strict low middling."

They wired back:

"Premium on white cotton probably 5 to 6 cents over July. Trying to get offer of some kind on your contract."

We wired them:

"Want to know if you can exchange the 106 bales spots for all white cotton; nothing below strict low middling, and at what difference."

They replied:

"Impossible to exchange your contract for white cotton."

Then we wired them:

"Is there no spot dealer willing to make the exchange at a price? Would appreciate effort to get offer."

Here is what they answered:

"No one willing to make such an exchange. Best thing to do deliver hundred six bales on contract and buy hundred bales of spots in open market."

"The best thing you can do is to sell contract and redeliver 106 bales of spot cotton." That is what Carpenter & Co. advised, and that is what we did. The above game was played with loaded dice.

Mr. RANSDELL. Mr. President, my only observation on that is that I know nothing whatever about the transaction to which the Senator alludes, but there is a possibility of unfairness and injustice being practiced under the terms of virtually every law. No matter how legislation may attempt to prohibit these practices in the business transactions of the world, some men will conduct them in a way not equitable to all parties concerned.

As the Senator read that list, some of those bales of cotton were not deliverable under the contract. Some of them were below low middling. They actually tried to deliver some cotton which could not be delivered, which was not tenderable.

Mr. COMER. That was before the last Smith-Lever Act amendment.

Mr. RANSDELL. Perhaps so. Then good ordinary was deliverable at that time.

Mr. COMER. I have given this to you straight from the bat, and it is not business and should be unlawful. Even under the amended law the Bureau of Markets makes the exchange prices by compositing prices as described from 10 spot markets. Think of getting reliable daily prices from 10 spot markets on 10 different types of cotton. It is absolute nonsense. It is like the new way they measure the distance to the fixed stars, as I said the other day. They guess one-fourth of the distance and multiply it by 4. When the Bureau of Markets attempts to make a basis price, or composite price, from 10 spot markets on 10 different grades it is nonsense.

Mr. RANSDELL. How ought they to do it?

Mr. COMER. I am going to ask the secretary of the Bureau of Markets to limit to five. It ought not to be over four. The fact of the business is it ought to be delivered on the commercial price, spot price; if we are tendering on a basis price, basis price should be middling of the market and not a factitious middling. It is too contemptible to think of.

Then you talk about exchange deliveries. There is a great deal said about getting cotton from the exchanges. I have spoken here as earnestly as I know how and made it as clear as I possibly could that cotton does not come from the exchanges. The exchange is simply an index of the price, yet we have men of fine sense who will gravely argue with you that if you put this amendment in it will be impossible for them to deliver the cotton. The exchange propaganda gravely asserts this, and they know it is moonshine of the flimsiest character.

I will tell you how much cotton New York has had certificated this year—it sold millions of bales of contracts. It certificated 7,676 bales, and yet they will gravely assert that cotton is delivered through the exchanges. There is not one of them that does not know it is not true.

Spot cotton is not bought through the exchange. A future contract is a hedge against the market, and you go where the cotton is to buy it, and you buy the spot cotton at the market price. The exchange does not make the price. It can not make the price, and it has no right to try to make value. The exchanges are going out and saying abroad in the land, "Pass this law and you outlaw a whole lot of low-grade cotton and cause thousands of people to suffer." That is the sheerest nonsense, and they know it. It does not inlaw nor outlaw any cotton. When a man gets up and gravely asserts that it is the spinners' contract, and against low-grade cotton, that man ought to have his head examined; that is, if he is a business man. It is not true, and it can not be true.

You heard the Senator from South Carolina (Mr. Smith) say a while ago that cotton was bought and sold on the basis of supply and demand. That is true. That is the only market for cotton, and it is the only market for anything.

Mr. RANSDELL. Will the Senator yield for a further question?

Mr. COMER. Certainly.

Mr. RANSDELL. The Senator, as I understand, says that when anyone asserts that it is a spinners' contract he ought to have his head examined.

Mr. COMER. Surely.

Mr. RANSDELL. I have not made that assertion, and so, of course, I know the Senator has not applied the remark to me.

Mr. COMER. I am not applying anything to the Senator.

Mr. RANSDELL. But the assertion was made in a number of the letters and telegrams which I read several days ago. Now, I want to call the Senator's attention merely to the headlines of the Montgomery Journal of Saturday, April 10:

"Senator Comer's speech before the Senate April 3, 1920, amending the cotton-futures act, stabilizing futures values and making them approximate commercial value, discouraging violent speculations and erratic differences between contract market and spot cotton.

"Senator Gronna, who is chairman of the conference committee, in questioning Senator Comer, declared that the decision in conference will depend entirely upon the representatives from the cotton States.

"The question is, Will they favor the farmer or listen to the exchange gamblers' propaganda?

"Farmers and others interested should take immediate action."

The article seems to occupy five and a little over one-half columns—practically a whole page—of the Montgomery Journal of April 10, and at the bottom I see the word "Advertisement."

I should like to ask the Senator from Alabama, without intending to be personal in the least, if that speech of his was paid for by the producers, by the cotton exchanges, or by the spinners, and in whose interest that advertisement was inserted in the Montgomery Journal?

Mr. Comer rose.

Mr. RANSDELL. If the Senator wishes, I will make one question of the whole, as I have two or three other similar articles here.

I will now read from the Montgomery Advertiser of Friday, April 16. The headline is:

"Paper by B. B. Comer read before the convention of the American Cotton Association."

It occupies nearly three and a quarter columns. At the bottom it is marked "Advertisement," and purports to be an address by the Senator from Alabama, which was read before the convention of the American Cotton Association in Montgomery, Ala.

I read next from the State, of Columbia, S. C., of Thursday morning, April 29, 1920, as follows:

"SENATOR COMER'S SPEECH BEFORE THE SENATE, APRIL 17, 1920.

"Senator Comer's speech before the Senate, April 17, going very thoroughly into every objection to his proposed amendment to the cotton-futures act—trying to stabilize contract cotton with spot cotton, making the contracts more truly represent spot values—he shows that the cotton exchanges are trying to reach and prejudice Members of Congress by propaganda telegrams from various interests incited by them endeavoring by every possible means to maintain their speculative advantages by which they have gerrymandered the price of cotton for years, gathering unwarranted gains. The exchange propaganda makes all kinds of absurd statements, dogmatic and impossible of proof; using every effort to create prejudice between producer, dealer, and spinner; holding themselves up as the guardian of the farmer and trying to make the laws governing their relation to the handling of this greatest of world products. Farmers,

legitimate dealers, take notice. The issue is the gamblers' interest against yours. The exchanges are using every method to control your representatives. Will you be idle?''

Those are the headlines in large letters, at the head of this article, which occupies all of one page of the State, Columbia, S. C., of the 29th of April, except a fraction over one-half column. At the end of it is printed the word "Advertisement."

Now, I again ask the Senator whether these three advertisements—and I presume others, for I have understood that similar advertisements were published in the papers of other States as well as those of Alabama and South Carolina—were paid for by the spinners or by the cotton producers or by the cotton exchanges, and if so, what was the purpose? Whom have the producers got to meet in this propaganda?

Mr. COMER. Mr. President, I am glad the Senator from Louisiana has called attention to this matter. The Senator has not all of the papers in which this publication was made?

Mr. RANSDELL. No; there are several others, I think, but I have not the papers here.

Mr. COMER. We are trying to have similar articles published in Dallas; in Oklahoma; in Little Rock; Memphis; Atlanta; Macon; Raleigh; Greensboro, N. C.; Greenville, S. C.; and Columbia, S. C.

I will state further that last year we ourselves made the propaganda, and we published articles in the papers of Georgia, Alabama, South Carolina, and North Carolina. That is one reason why those States to-day know what they are doing; that is why they realize the situation. We did not publish articles in Louisiana, Arkansas, Mississippi, and Texas and other States, and that is one reason that the people in those States are not acquainted with the issue. If we had gone to those States last year and showed the conditions as they were, then we would not now have so much trouble.

Mr. RANSDELL rose.

Mr. COMER. The Senator will wait a moment if he please——

Mr. RANSDELL. Certainly.

Mr. COMER. That was last year. This year we paid for the publication of the matter.

Mr. SHEPPARD. To whom does the Senator refer when he says "we"?

Mr. COMER. The Avondale mills.

Mr. RANSDELL. The Senator means his own mills?

Mr. COMER. I mean our own mills. Not one dollar was collected anywhere else.

Mr. SHEPPARD. The Senator means there were no other contributors?

Mr. COMER. I will say to the Senator that I mean we conducted the whole thing. If we get a stabilized contract it will be worth a very great deal not only to our mills but to everybody with whom we have business. As regards my own feeling about such matters it is different from that entertained by some others.

I made a fight in Alabama for a better freight rate, for better conditions for the people who live and labor in the State, to change it from a reactionary State and make it a progressive State. I have spent 10 years of my own time and $50,000 of my own money to do that. I thought it was a service well rendered, and I shall never regret a day of the time or a dollar of the money expended nor shall I regret the effort I have made if this amendment shall be carried through, taking care as it does of every man who raises cotton, of every man who deals in cotton, or who manufactures cotton. That is the ultimate object of the amendment, and I do not care who he is who asserts to the contrary, he does not know what he is talking about.

Of course, that is the object of the amendment. From whom does the cotton mill buy the cotton? From the dealer. From whom does the dealer buy it? From the producer. When the cotton exchanges send out their propaganda to arouse prejudice against those peoole, why are they doing it, and what for? Is it to help the farmer, to help the dealer? They never work for those causes.

Mr. RANSDELL. May I interrupt the Senator?

The PRESIDING OFFICER Does the Senator from Alabama yield to the Senator from Louisiana?

Mr. COMER. Certainly.

Mr. RANSDELL. The Senator just stated that he carried on this propaganda last year and this year in North Carolina and South Carolina and hence the people of those States were educated.

Mr. COMER. I forgot to say that we did not get into North Carolina very much, but we got in there to some extent.

Mr. RANSDELL. You got into South Carolina?

Mr. COMER. Yes, sir.

Mr. RANSDELL. The Senator certainly had the advertisement in a Little Rock paper, in North Carolina papers, and in South Carolina papers; and yet the States that voted against his amendment at the great cotton convention in Montgomery, Ala., a short time ago were Arkansas, Louisiana, North Carolina, Mississippi, and

South Carolina. So certainly those States which were educated by the Senator's articles did not go with him on that vote.

Mr. COMER. The president of that convention was Mr. Wannamaker. The first telegram I published in the Record in regard to this matter was from Mr. Wannamaker at the very beginning of this controversy, strongly favoring the amendment, standing for it, and wishing it success. That telegram is published in the Record and Senators can read it for themselves.

Mr. Wannamaker voted against the amendment at the Montgomery convention. Why did he vote against it? Because he said he did not want politics brought into a cotton convention; that is why. The day I received the telegram that the cotton convention had voted 15 to 16, I read the names of the States voting, and I asked the Senator from South Carolina [Mr. Dial], "Is not South Carolina for the amendment?" He said, "It certainly is"; and to-day I understand that every Representative from South Carolina stands for it. By the way, I promised to read a letter concerning that convention.

Mr. RANSDELL. I will be very glad to hear it.

Mr. COMER. It is from ex-Senator White. The Senator, I think, knows who he is.

Mr. RANSDELL. I know him very well.

Mr. COMER. He is one of the nicest men I ever saw.

Mr. RANSDELL. He is a fine man.

Mr. COMER. And one of the fairest men I ever knew. He was a representative at that convention. By the way, he is a candidate to succeed the late Senator Bankhead, and a better man could not be elected.

Reading Senator White's letter:

"We had a very stubborn, and, I am inclined to think, unscrupulous opposition"—

Does the Senator from Louisiana hear that?

Mr. RANSDELL. Yes.

Mr. COMER. I repeat:

"We had a very stubborn, and, I am inclined to think, unscrupulous opposition. The resolution indorsing the amendment was referred to the committee on resolutions, which was stopped against us. The committee lost the resolution."

He means they lost the paper—

"When we learned this we got the legislative enactment committee to originate an indorsement of the amendment. Had a favorable report to the board of directors, then had the board of directors indorse it, which was accomplished with difficulty. We finally had a test vote, then on a recount we got one majority"—

On a recount, on the test vote, there was one vote counted against it that did not belong there, and on the matter being called to the attention of the Chair the question was brought back and carried in favor of the resolution—

"After this action was obtained the resolution committee found the resolution and put in a report referring it to a committee to investigate and report at the next session of the association; this meant to chloroform it. When the committee reported I moved to amend it on the floor of the convention by inserting an indorsement of your resolution, the chairman saying that the matter would be acted on in a few minutes by the board of directors, and that then it would come up in the convention. When the board of directors reported they chloroformed it by referring it to the committee for investigation."

Did the Senator from Louisiana ever hear of that kind of procedure?

Mr. RANSDELL. I have heard of such things happening.

Mr. COMER. It does not sound like the report the Senator read the other day, does it?

"I moved to amend the report by indorsing the amendment, after two or three hours' fight on the floor, in which Col. Thompson, ex-president of the New Orleans Exchange, urged that the matter be postponed, saying it would injure the association."

Mr. RANSDELL. May I ask the Senator if he wishes to pursue that line further, or shall I ask him a further question now in regard to these articles?

Mr. COMER. I want to explain them further.

Mr. RANSDELL. All right; I will not bother the Senator.

Mr. COMER. I did not answer you enough on that.

Mr. RANSDELL. I shall ask my question later, then.

Mr. COMER. Senator, I differ, I believe, with some folks on those things. Whenever I was trying to serve the public, it was not a question of expense. It was a question of whether or not service could be rendered; and if it took ten times what it cost to make this fight before the people, if they would understand, we would think it money well spent. I am one of those who do not believe that everybody has to be selfish all the time, and in reciting these facts to you, they are not dogmatic. There is no dogmatic assertion. Everything, every single, solitary thing, that I assert I can prove. What I am stating here is the result of actual experience in the proposi-

tion. I am giving you experience. I am not giving you dogmatic assertions, or propaganda, or anything of that kind.

Mr. RANSDELL. Mr. President, would the Senator mind saying how much he has expended on this propaganda? It must have cost a great deal.

Mr. COMER. How much would you think, Senator?

Mr. RANSDELL. I should think a good many thousands of dollars. If I should insert an advertisement taking up a whole page of a big daily paper, I would expect to pay a large sum of money for it. I imagine you must have spent a good many thousands of dollars.

Mr. COMER. Senator, there is this difference: When you insert anything, that is a political advertisement. This is a commercial advertisement, you understand. They are two different propositions.

Mr. RANSDELL. Perhaps so.

Mr. COMER. Anybody can see that it is a commercial advertisement. Anybody can see that this does not redound to my benefit, you understand. It is to work out a principle, for the protection of what? That thing that we ought to have had years ago—the protection of the cotton of the South, the cotton business of the world.

Mr. RANSDELL. Mr. President, will the Senator permit another question at this time? I believe the Senator agrees with me that the Baltimore Manufacturers' Record is a fair index of conditions in the South, and usually is an impartial paper, is it not?

Mr. COMER. I should think so.

Mr. RANSDELL. Has it not been a great champion of the South, especially the cotton industry of the South, for many years?

Mr. COMER. I think so.

Mr. RANSDELL. I find on page 79 of the Baltimore Manufacturers' Record for the 29th of April this statement:

"ENORMOUS PROFITS OF SOUTHERN COTTON MILLS.

"The Tucapau Mills, of Spartanburg, S. C., one of the big cotton manufacturer of the South, has just declared a stock dividend of 303 per cent, and the Spartanburg Herald reports that $850 a share was bid for the stock of this company. The Easley Mills, of Easley, S. C., has also declared a stock dividend of 300 per cent, payable in preferred stock, yielding 7 per cent a year. The Saxon Mills has declared a stock dividend of 100 per cent, and other mills are reported as likely to declare large stock dividends.

"While the amazing prosperity of the cotton-mill industry is adding enormously to the wealth of the South, these great dividends show that the cotton mills could have paid a much higher price for cotton and still have earned enormous profits. Unquestionably, the cotton producers have not had a fair division of this prosperity."

Now, I want to ask the Senator—and if it is not a fair question I will withdraw it—if the Alabama mills have made profits in the same proportion as the South Carolina mills, and if the cotton producers of Alabama have reaped anything like the same proportion of profits that the cotton mills of Alabama have realized?

Mr. COMER. In answer to your question, Senator, I think the cotton mills everywhere have been prosperous. Referring to one of the great items that you mention there, however—the dividends declared—I wish to say that if you take a mill of 100,000 spindles erected three years ago the increase in the cost of that mill to-day is 300 per cent.

It costs four times as much to build a mill now as it used to. For the last mill we put up we paid $1.58 a spindle; to-day the price is $6.50 a spindle. The last cards we put up was $400 a card, and to-day the price is $1,400 a card; and if you happen to have any of that property the increment of increased value puts the per cent up; of course it does. Then, besides that, you take construction: The first mill we built cost $4.50 per thousand for brick; to-day the price of brick is $20 per thousand. The price of lumber was $9 a thousand; the price now is around $80 a thousand. Those things are going along. But, Senator, I am not talking about the prosperity of the exchanges. We want the exchanges to be prosperous and we want the cotton mills to be prosperous. We want the exchanges to stabilize; to let the law of supply and demand indicate value—the value of commerce—and not a factitious and fictitious value. That is what we want. We do not begrudge them any earnings whatever. We do not care what they earn; we want to see the whole country prosperous—not one section, but every section.

Mr. RANSDELL. Mr. President, will the Senator yield for a question?

Mr. COMER. Certainly.

Mr. RANSDELL. I want to say to the Senator that I am delighted that these mills have made a big profit. I hope his mills made as big a profit in proportion as these South Carolina mills. My only regret is that the cotton growers did not make much profit. I know I did not. I certainly did not pay any income tax on my cotton crop last year.

The cotton convention which we have talked about so much passed a resolution saying—and that was unanimous, Senator; I do not think there was any dissent on that—that, while they would not attempt to specify any price for cotton, the cotton mills could well afford to pay 60 cents a pound for it instead of present prices, considering the enormous profits they have made. Now, it seems to me in all of this discussion that we ought to look a little after the producing end of this proposition as well as the spinning end.

I am standing here in my humble way not only to defend the Cotton Exchange of New Orleans, but particularly that great industry in which I myself am engaged, the production of cotton. It is my only business. As I said several days ago in speaking here, I am not connected with the exchange. I live more than 300 miles from New Orleans, and rarely get there. I have not been on the floor of the exchange in years, but I am tremendously interested in the production end of the cotton industry; and when I see the statement made by representative conventions that the cotton mills could afford to pay 60 cents a pound, and when I read to the Senator a statement published in this great journal that three mills of South Carolina declared stock dividends of over 300 per cent last year, and then the Senator goes on and talks to me about the evils of the exchange, I can not help thinking that the Senator ought to explain somewhat why those mills were making that enormous per cent in this day of the high cost of living, at this time when there is so much talk about profiteering, when somebody has recently inaugurated a scheme to add further profits to the cotton mills by persuading everybody to use overalls, when everyone knows overalls are made of cotton. Of course, I know the Senator did not do anything of that kind, and I do not charge that it was done in the interest of the cotton mills, but it certainly is one of the direct results of that program. If everybody wears overalls, there will be more demand for cotton products.

Mr. COMER. All goods that are sold, Senator, even cotton goods, even overalls, are sold in the world's market on the basis of supply and demand, and the cotton mills have been doing the same thing. That is exactly what they want the exchanges to do. We want them on the supply and demand market, the world market. That is what we want. There is nothing else to it than that.

Now, to prove to the satisfaction of everybody that the exchanges do not deliver cotton, that they were never intended to deliver cotton, and the falsity of all this stuff to the effect that if you pass this amendment then the exchanges will be knocked sky-high, because they can not get the cotton to deliver—that is what they say—I am going to read you, Senator, the amount of cotton certificated in New York this year on the New York Cotton Exchange.

Mr. SHEPPARD. Mr. President, may I ask the Senator a question there?

Mr. COMER. Certainly.

Mr. SHEPPARD. Do you mean by "certified" sold through the exchange?

Mr. COMER. No; that was turned in for sale.

Mr. SHEPPARD. Was it sold?

Mr. COMER. Some of it was. Some of it was delivered. You know they had a squeeze in March, Senator. They were selling cotton the last of February at 36.52.

Mr. SHEPPARD. Who turned that in, and how did they get it?

Mr. COMER. Oh, they bought it on the markets of the world. You buy it anywhere. That is where you get cotton, on the markets.

Mr. SHEPPARD. Do you mean that the members of the exchange bought it?

Mr. COMER. I do not mean the members of the exchange. Anybody can sell cotton on the exchange, but you have got to have it there to deliver, provided you want it delivered. Most of them do not calculate on delivery.

Mr. SHEPPARD. Does some committee on the exchange do the certificating?

Mr. COMER. Oh, no; the Government does. It has to be seven-eighths of an inch staple, a certain color, etc. The Government does that. We bought cotton some years ago, 2,000 bales; we paid for the tender in the spring, and it was delivered to us in August. That was the time when they found this indictment against Patton, Haynes, Brown, and others. The total cotton certificated in New York in January was 2,336 bales; in February it was 666 bales; in March, 3,090 bales; in April, 1,584 bales. A total of 7,676 bales certificated for delivery. That was in New York.

I believe you read the other day, Senator, that New Orleans had 20,744 bales.

Mr. RANSDELL. I think you are correct, 20,744 bales.

Mr. COMER. Of which 15,920 are higher grade cotton.

Mr. RANSDELL. That is correct.

Mr. COMER. I want you to keep that right square in your mind.

Mr. RANSDELL. Very well.

Mr. COMER. Senator, last week we had 200 bales delivered to us through the New Orleans Exchange. We were carrying quite a bit of cotton. We did not believe they would tender, but they did tender 200 bales, and here is what they delivered. You recollect saying that two-thirds of the cotton down there was high grade. They delivered to us of the 200 bales—there were 210 bales, because of the light weight—strict good middling, 1 bale; good middling, 5 bales; strict middling, 1 bale; middling, 1 bale. That was the high-grade cotton out of that 15,000 bales they delivered. Then strict middling tinges, 3 bales; low middling, 199 bales. That made 210 bales. They gave us 8 bales of high grade, 3 bales of tinges, and 199 bales of the lowest grades. They did not disturb their higher grade cotton.

Mr. RANSDELL. Will the Senator yield?

Mr. COMER. Certainly.

Mr. RANSDELL. Will the Senator please tell us how much difference they allowed him between the values of those low grades they tendered and middling cotton on those dates?

Mr. COMER. Yes, sir; and there is where the trouble comes in, too. I am glad you asked the question. I have the comparative differences—New Orleans and New York. I am loaded for bear to-day.

This is from the Bureau of Markets. The exchange difference in New Orleans is now 9 cents between low middling and middling. The difference between middling and low middling in New York is 7.20. There is a difference of 1¾ cents between low middling in New York and low middling in New Orleans. Who ever heard of a condition like that being fair? One and three-quarters cents between the prices, according to this, of New York and New Orleans on low middling. Not only that but worse than that, because New York Exchange middling is a cent higher than New Orleans, which makes 2¾ cents difference; and, Senator, you agree to this amendment and that thing will be impossible, and it ought to be impossible.

Mr. RANSDELL. Mr. President, will the Senator answer my question?

Mr. COMER. Anything.

Mr. RANSDELL. The Senator has not answered my question yet.

Mr. COMER. What is it?

Mr. RANSDELL. I have asked the Senator what difference was allowed him by the company which tendered him these low grades of cotton of which he complains. What was paid him in the way of a difference between middling, the basis of the contract, and the cotton which they actually tendered to him?

Mr. COMER. Senator, I have just told you. I told you 9 cents in New Orleans.

Mr. RANSDELL. The Senator spoke of just one grade there. He said those were the differences between New Orleans and New York. But he has never yet said whether it was a New York contract or a New Orleans contract, and I can not tell from his statement what they did actually pay him, and whether the difference was a fair one or not. If the Senator received the full amount of money due him, I take it he certainly has no complaint to make. Was the Senator swindled in the transaction? Was the matter negotiated so that the Senator actually lost money on his contract?

Mr. COMER. When 39.80 was the price in New Orleans, and we got the low middling at 9 cents off, that would make it 30.80 in the New Orleans exchange market for the low middling. That low-middling cotton was worth that price anywhere. The man who put that cotton through the exchange lost money. But that is not the question. It was the basis, which was 39.80, as against a spot price 2 cents higher. If the exchanges had been functioning and the differentials between low middling and middling had been the same, 9 ecnts, then the seller of the cotton would have gotten 2 cents a pound more and that is wherein the exchange basis price middling operates against the holders of off-grade cotton as compared with a stabilized price middling.

Mr. RANSDELL. I am trying to find out what Senator Comer and his mills lost on the transaction.

Mr. COMER. I have just read that we took 199 bales of low-middling cotton. That was the lowest grade they have. If we were getting it for higher grade mills, we would have had to resell it, because we could not use it. If we were taking it for our low-grade mills, it was cheaper than we could have bought it, as low-middling was worth that price or more anywhere. I mean that it had no added value by having come to us through an exchange and had lost money because of the expense of delivery.

Mr. RANSDELL. But how much money did the Senator lose?

Mr. COMER. I do not know. We had bought this contract months before at a price of about 33½ cents. The cotton was closed out at 39.67; we made 6 cents per pound

on the hedge sale and got the cotton cheaper than we could have bought it on the market.

Mr. RANSDELL. If the Senator does not know, Mr. President, I am sure I do not.

Mr. COMER. On April 19 strict good middling was quoted 275 points on middling in Memphis, 400 on at New Orleans, 288 on at New York; good middling was 200 points on in Memphis, 350 on in New Orleans, and 223 on in New York; strict middling yellow tinge was quoted 450 off in Memphis, 150 off in New Orleans, 315 off in New York; good middling yellow tinge was quoted 300 off in Memphis, 75 on in New Orleans, and 133 off in New York; and good middling yellow stains was 600 off in Memphis, 300 off in New Orleans, and 450 off in New York. I give these differences to show you that these can not be true quotations; they are fictitious, and yet out of them is composited the basis middling.

Mr. RANSDELL. Mr. President, may I ask the Senator if Memphis is an exchange market?

Mr. COMER. Sure.

Mr. RANSDELL. They have not a cotton exchange there, have they?

Mr. COMER. It is one of the markets from which we get prices. I think they have a cotton exchange there; I am sure of it.

Mr. RANSDELL. I was not aware of it. I thought there was only one big cotton exchange in the South, at New Orleans, and one at New York—two in the United States. That is my understanding.

Mr. COMER. You are wrong, because we have a letter from the Dallas exchange. Nearly all the big cotton markets have exchanges. But I am quoting you from the spot market, from which New York and New Orleans get their relations.

Mr. RANSDELL. I do not want to be misunderstood. I know they have a spot market in Memphis and these other big cities; but what I meant was that there is no future-contract market exchange in Memphis.

Mr. COMER. I think they have.

Mr. RANSDELL. Perhaps so. I understood the contrary.

Mr. COMER. They have what they call bucket shops.

I have here a telegram from New Orleans sent a few days ago to one of their correspondents in Alabama. It reads:

"NEW ORLEANS.

"Professional effort being made to depress the market, but offerings absorbed in good fashion. Likely require constant selling to force market down to any considerable amount."

Here is another telegram:

"NEW ORLEANS.

"Rumored there will be about 10,000 bales of low-grade cotton delivered on May contracts here to-day.

"Spots New Orleans reported quiet, if any change likely lower. Not much business so far. Reported movement in New York to close the New York Cotton Exchange on Saturday in the future."

That was dated last week.

You yourself said that they only had 5,000 bales of low-grade cotton there, and yet here is a telegram from New Orleans that they are going to tender 10,000 bales.

Mr. RANSDELL. Mr. President, the Senator does not mean to misquote me, I am sure. He says I myself said they only had 5,000 bales. What I said is found on page 6345 of the Congressional Record of the 30th of April, and it speaks for itself. I said that the United States Bureau of Markets showed that cotton classified and certified from March, 1919, to December 1, 1919, in the New Orleans Exchange market was 20,744 bales, of which 4,824 were low grade. I did not say they did not have a great deal more cotton there. I assume that in that enormous cotton market, which handles hundreds of thousands of bales of spots—and I could not pretend to say how many bales of futures—there are bound to be a good many more than 5,000 bales of low-grade cotton.

Mr. COMER. The way those things are managed largely is to keep them in near-by warehouses, ready to be certificated. Where New York has less than 3,000 bales, I understand that Norfolk has 70,000 bales. Suppose Norfolk was carrying this kind of cotton. That is the way those things are run. In your speech on page 6344 of the Record you practically make the spot market run with futures market, both running very nearly the same thing.

And, Senator, that is just exactly what we are after. I want the two to run together. They should run together, and when they do not run together they are not functioning. That is what is the trouble. The New York Exchange market and the spot market in the South have been for the last 60 days very nearly together, the thing we are after; the New York market is functioning properly.

* * * * * * *

Mr. RANSDELL. I should like to ask the Senator what is going to happen to the low-grade cotton of the South—and he admits there is a great amount of it in the South now—if his amendment is adopted? What is going to happen to all these low grades, and will they not lose their availability as an insurance for the seller and their potentiality for hedging purposes? I would like to have the Senator from Alabama explain exactly the effect of his amendment on the producer's low-grade cotton, which makes up such a large portion of his crop.

Mr. COMER. The stabilizing of the contract price making it approximate the spot price will unquestionably advance the contract price, and if the same parity between the lower grades will continue, then the lower grades to that extent will be benefited and they will also be benefited to the extent that the market reflects solvent, trustworthy business conditions.

Mr. RANSDELL. May I ask the Senator whether he thinks that we ought to repeal the cotton-futures law entirely?

Mr. COMER. No.

Mr. RANSDELL. Does the Senator believe the exchanges, properly handled, exercise a good function and one valuable to commerce and business generally?

Mr. COMER. Not only that, but I believe they will be a benefit when you make them straight and honest, when you get a business that is straight, that dealers will go there and do business more so than they will do to-day. I believe it will increase business.

Mr. RANSDELL. But the Senator thinks that men like our friend ex-Senator Percy, Mr. A. B. Learned, W. B. Thompson, and others, whom I quoted extensively, are mistaken when they say the law is functioning very well? Does the Senator think it will be very much of a benefit to the entire cotton trade if the amendment which he has proposed is adopted?

Mr. COMER. When you get back to Senator Percy, I want to explain what I said about gambling a while ago. Senator Percy is one of the nicest men I ever saw and I am very fond of him. He is not a gambler, you understand, not by any manner of means.

Mr. RANSDELL. I am very glad to have the Senator withdraw that statement. I knew that Le Roy Percy was no gambler.

Mr. COMER. Oh, no; he is no gambler; and no doubt Mr. Thompson is a nice man.

Mr. RANSDELL. He certainly is.

Mr. COMER. But when Mr. Thompson says that the present law is good, I have just shown you where it is not good.

Mr. RANSDELL. That is a difference of opinion.

Mr. COMER. There is no difference of opinion about it. I have shown you the statistics about it; I have shown you quotations themselves, and any business which makes that record, I do not care where it is, is wrong. You can not make that kind of a record and do a straight business. I read it to you a while ago. Mark you, Senator Percy was held up to the Senate as being a very smart man, and he is; but Senator Percy himself says that if this amendment goes into effect it will not have that deleterious and far-reaching effect in the exchanges that you say it will, and he is telling the truth.

Mr. RANSDELL. I believe the Senator admits that practically one-half of all the cotton is low grade, does he not?

Mr. COMER. The New York Wall Street Journal said 47 per cent was low grade last year. I say that the usual year more than two-thirds of the cotton is middling and above. Last year the New York Journal said 47 per cent was low grade.

Mr. RANSDELL. I have always understood middling was, as its name indicates, the basis of the grades; that is, one-half is round numbers were above and one-half in round numbers below. However that may be, 47 per cent of the present crop, according to those figures of the New York Journal of Commerce, is low grade. The Senator will admit that is a very large percentage of the crop, and under his amendment, as I take it, all of that is abandoned—that is, left out and is not considered at all. There can be no insurance for all of that low grade, for that 47 per cent of a crop which is worth $2,000,000,000. What has the Senator to say to that?

Mr. COMER. There is not any insured price for anything; there is nothing insured. The supply and demand market controls everything—low grade and all—and when you say the exchange insures anything it is not an accurate statement.

Mr. RANSDELL. Then, may I ask the Senator what is the functicn of the exchange if it be not to hedge cotton or to insure the cotton?

Mr. COMER. The function of the exchange is to make a true index of the value of cotton; that is what it is for. It is not to make the price; it is not to increase the price; it is to be the true index of cotton; that is what it is for.

Mr. RANSDELL. Then, the Senator differs from Mr. Herbert Knox Smith. That gentleman, in a wonderfully interesting, elucidative, and exhaustive report made in

1908 as commissioner of corporations, recommended most emphatically that the exchanges were necessary because of their insurance guaranty, and the congressional committee which studied the question fundamentally and scientifically concurred in this recommendation. These capable and disinterested authorities assert they are essential to the trade.

The Senator seems to disagree with them. I showed here several days ago that the House Committee on Agriculture, in an able report, No. 765, of the Sixty-third Congress, spoke very highly of the cotton contract. It is not necessary to read it again, I imagine, and I merely quote from the report:

"It is the opinion of the committee that the abolition of the cotton exchanges would result inevitably in the monopolizing of the entire cotton crop into the hands of a very few powerful interests, with the force and means to fix the price at which the farmer would be compelled to sell his cotton. Fully 75 per cent of American-produced cotton leaves the hands of the producer during the four months of September, October, November, and December. It takes no stretch of the imagination to foresee how utterly helpless the farmer, as a class, would be in his present disorganized condition as a factor in fixing the price of his own products as against the organized genius and money of the spinners and powerful spot-cotton dealers."

As against the men who, according to the Baltimore Manufacturers' Record, made in the State of South Carolina last year over 300 per cent; as against the men who, in the opinion of the great cotton convention of the American Cotton Association, held in the city of Montgomery, the capital city of the Senator's own State, three weeks ago, said that cotton could well bring 60 cents a pound at the present time, in view of the profits which the spinners were making on it.

This is not what I say; this is not what an exchange in New York or an exchange in New Orleans says; it is what the Agricultural Committee of the House of Representatives said when they had the Smith-Lever bill before them. They show, in substance, that if it were not for the exchanges, if it were not for the insuring feature, if it were not for the hedging which comes about on the exchanges in the great markets, if it were not, if you please, for the speculation indulged in by the great number of men in this country who like to speculate, the producers would be at the mercy of the spinners and the large spot-cotton dealers.

There is a big difference of opinion, I say to the Senator from Alabama and to other Senators, on this great question, and I should like to have the Senator from Alabama explain, when he says that these things are all wrong, how he knows that the members of the great Agricultural Committee of the House were mistaken, how he knows that Mr. Herbert Knox Smith was wrong—and Mr. Smith is not a cotton man; he has no interest in cotton—and how the Senator knows that men like Mr. Percy and Mr. Thompson and all the others are wrong. Mr. President, I desire to quote just an excerpt from Mr. Smith's report—Chapter I, page 58—to wit:

"It should be emphasized that one of the great functions of a cotton exchange is the bringing together of buyers and sellers or their representatives. An exchange is a great market place. Transactions are, of course, greatly facilitated by the mere congregation of buyers and sellers and their representatives on the floor of an exchange. In the case of those exchanges on which a future business is conducted it should be noted that there are really two markets, one for future contracts and the other for spot cotton. The future market is not used to bring the producer and the spinner directly together, but is rather a meeting place for cotton merchants (or their representatives) and brokers, who stand between the producer and the spinner. Spinners, for reasons explained in detail in a later part, do not ordinarily receive their supplies of cotton directly on exchange contracts, but enter into private arrangements with merchants or brokers for the particular kinds of cotton which they require. These merchants, moreover, ordinarily do not obtain the cotton which they need by receiving it on exchange contracts. Such merchants, as already emphasized, use the future market mainly for hedging purposes, and the future ring to this extent becomes, as already pointed out, a great clearing house for hedging transactions. * * * The enormous advantage of such hedging transactions to the spot merchant, however, has been fully illustrated, so that it should be apparent that the future market, while not designed to bring the final consumer into direct touch with the producer of cotton, may perform quite as legitimate a function as if it accomplished this result directly.

"Of course, in addition to hedging transactions, a vast volume of speculative business is conducted in contracts. These, however, as just pointed out, are closely intertwined with hedging operations and may greatly facilitate the latter, although at times they undoubtedly are a source of disturbance."

Senators, a dogmatic assertion is one thing but proof is another.

Mr. COMER. I yield the floor.

Mr. RANSDELL. Mr. President, I merely wish to put into the record one or two telegrams. I read first a very brief telegram from the Hon. I. N. McCollister, president of the Louisiana Farmers' Union. I have had it for some time; it is dated the 28th of March last, and addressed to me at Lake Providence, when I was at my home there. He says:

MANY, LA., *March 28, 1920.*

J. E. RANSDELL,
United States Senator, Lake Providence, La.:

Kill the Comer rider to the agricultural appropriation bill, as it outlaws the majority of the cotton raised by farmers and destroys price insurance by futures.

I. N. MCCOLLISTER.
President Louisiana Farmers' Union.

Mr. McCollister lives at Many, La.; he is a farmer and lives in the hill section of north Louisiana, where he raises cotton.

I now read a telegram from Mr. H. Arthur Morgan, secretary-treasurer of the Association of State Farmers' Union Presidents. He is a farmer, living at Gonzales, La., and raises cotton and some cattle. His telegram is dated March 30, and he says:

GONZALES, LA., *March 30, 1920.*

Senator JOSEPH E. RANSDELL.
Washington, D. C.:

The rider to the agriculture appropriation bill by Comer if permitted to become law would so restrict the contract as to be a vital blow to its usefulness to the producers, sellers, and buyers of American cotton. Briefly, the Comer rider is in the interest of the cotton spinner and opposed to the cotton producers, and if incorporated in the law would mean a deathblow to the cotton producers. I hope you will do all in your power to eliminate this Comer rider entirely. The passage of the Comer rider would place the American farmer at the mercy of the American spinners and foreign manufacturers, as they would control the price of American cotton.

H. ARHUR MORGAN,
Secretary-Treasurer Association State Farmers' Union Presidents.

Mr. Morgan, as I have said, is a cotton grower and cattleman. He is a member of the Louisiana Legislature and lives not far from the city of Baton Rouge, the capital of the State.

I now wish to read a copy of a letter which has been furnished me from Mr. J. A. Whitehurst, president of the State board of agriculture, Oklahoma City, Okla. The letter is dated April 28, is addressed to Hon. C. S. Barrett, president of the National Farmers' Union, Atlanta, Ga., and reads as follows:

STATE BOARD OF AGRICULTURE,
Oklahoma City, April 27, 1920.

Hon. C. S. BARRETT,
President National Farmers' Union, Atlanta, Ga.

MY DEAR SIR: I see that Mr. Comer refers to you in his rider to the agricultural bill on cotton grades as being favorable to his proposition.

I am certainly very much surprised to know that you take this position, in which the spinners are so earnestly interested. I am sure that not only the majority but all of the farmers in the entire Southwest, where they are not influenced more or less by the spinners and dependent upon export markets for their cotton, are opposed to the Comer rider.

I am surprised at this time, when we are all trying to get together through the American Cotton Association to protect the interest of the farmer, to find such a division of opinion existing in the Atlantic States and the Southwest. I have been more surprised at the stand that Mr. Wannamaker has taken, professing such deep interest in behalf of the cotton farmer, and I feel that this move will have much to do with destroying any concrete movement on the part of the Southern States getting together in the American Cotton Association.

We are to have a State-wide meeting at the capitol in Oklahoma City May 10 and 11, at which time we will make up our minds whether we will go ahead in the cotton business separate and independent from the Southeast States or not.

Assuring you again of the resentment felt by the cotton farmers of Texas, Oklahoma, Louisiana, and Arkansas, I am,

Very truly, yours,

J. A. WHITEHURST, *President.*

Just one word more, Mr. President. I wish to reiterate what I said several days ago, that the amendment of the Senator from Alabama, if written into law, will change a statute which was enacted by Congress in 1914 after the most earnest and sincere consideration, not for days, but for months and for years, for that measure was before Congress for several years. It is known as the Smith-Lever Cotton Futures Act. Under that act, passed in 1914, the exchanges of this country have been carrying on business since its adoption. It was amended slightly last year and restricted somewhat; the grades of "good ordinary" and "strict good ordinary" were taken out of the contract and the lowest limit was placed at "low middling."

Mr. COMER. Mr. President——

The VICE PRESIDENT. Does the Senator from Louisiana yield to the Senator from Alabama?

Mr. RANSDELL. Just a moment; let me make this statement. I think the fair and the just thing to do is to bring this matter up before the committees of Congress and give the cotton producers and the cotton spinners and the cotton exchanges, the three great interests involved, a chance to be heard. Practically only one side was heard when this measure came up—the spinners, most ably represented by the Senator from Alabama, who has told us here to-day that he and his companies have 200,000 spindles, eight big mills, in the State of Alabama. One side was represented here, Senators. Let us have this measure presented to a special committee, if you will, or to the Agricultural Committee, to Congress in a fair, open manner; not moved for the first time on the floor of the Senate, when we are not expecting it, and changing the entire law on such a valuable product as cotton.

Of the present supply, an unduly large portion is of low-grade cotton, because of the delay in gathering last fall on account of the shortage of labor and the consequent weather injury. Obviously, the immediate effect of the Comer amendment will be to upset dealings in cotton which require hedging, because a man will hesitate to sell a hedge under which he may be required to deliver more cotton above the grade of middling than he may possibly be able to command. At the same time the buyers of the large ratio of low-grade cottons still to be sold will be enabled to hammer the price upon the contention that such cottons will not be tenderable on contract. In the present situation, under the Comer amendment, he is a very reckless man who would agree to deliver, say, in September, any large volume of white middling cotton except at a price far beyond the present quotations. At the same time, a man would be equally as reckless who would agree, under that amendment, to purchase for September delivery cotton below middling at present quotations, if such cotton should be denied the privilege of tender on contract. The result to be reasonably expected from the Comer amendment is an artificial enhancement of the price of cotton above middling and a corresponding depreciation of the price of cotton below middling.

All I ask, Mr. President, as a representative of the producers, and also of the cotton exchange of my State—for I speak for it as well—is that the matter be delayed until we can study it, just as we studied the original Smith-Lever bill, and as we studied the amendment which was adopted last year. The proposed amendment goes much further and narrows and restricts the future contract far greater than the change made in 1919.

I now yield to the Senator from Alabama.

SPEECH OF HON. EDWARD D. WHITE, OF LOUISIANA, IN THE SENATE OF THE UNITED STATES, THURSDAY, JULY 21, AND FRIDAY, JULY 22, 1892.

"The Senate having under consideration the bill (H. R. 7845) defining 'options' and 'futures,' imposing special taxes on dealers therein, and requiring such dealers and persons engaged in selling certain products to obtain license, and for other purposes."

Mr. WHITE. Mr. President, the votes which have been hitherto had in the Senate to take up this bill and the general line on which the argument has proceeded seem to indicate that there is probably a majority sentiment on the floor in favor of the bill. I should hesitate very much with this knowledge to make any very elaborate discussion as to the constitutionality of the bill, or as to the wisdom of the legislation which it propounds, if I were not profoundly conscious that, in my judgment, there has been before the American Congress for many years no more pernicious, no more vicious, no more flagrantly unconstitutional legislation, no legislation more tending to undermine and destroy the very foundations of our Government, and none more calculated to do untold and untellable harm to the people of this great country. The

interests which this proposed legislation affects are enormous. The products the price or sale of which the bill attempts to regulate run up into vast proportions. I excerpt a statement from the testimony of Mr. Bacon, the president of the Milwaukee Chamber of Commerce, in which he says:

"The cotton crop of the country, which is handled in a similar way, is estimated at $303,000,000 for the current year. For last year it was estimated at $370,000,000, The meat product of the country is estimated at from $600,000,000 to $750,000,000 annually. These, added to the cereal products, make an aggregate of $2,600,000,000 in value, a large proportion of which is disposed of during a small portion of the year. which is required for consumption during the whole year.

"These figures, of course, convey but little idea to the mind without comparison. When we consider that the silver product of the country, which has been the subject of such extensive legislation for the past 15 years, is only about $50,000,000 in value, we will see that the amount is relatively more than 50 times as much.

"The value of the annual agricultural productions of the country is nearly equal to the aggregate of the national debt at the close of the war, the amount of which we have only reduced about one-half. It is only by comparison of these figures that one can reach an approximate idea of the magnitude of the interests involved in this question."

The theory of the Senator who presents the bill and who urges it with so much zeal on this floor is that, if the bill passes, to all the great body of the consumers of this country, representing 78 per cent of the population, there is to be an enhancement in the cost of these vast products. If, then, the arguments of the proponents of the bill be true, upon nearly $3,000,000,000 of products the effect of this legislation will be to increase the price to all the consumers of the country.

My judgment is, on the other hand, that if the bill passes the necessary effect will be to reduce the price obtained by the producers of the country in a considerable degree upon this great sum.

With these great issues involved in this bill, issues which go home to every hearthstone in this land, issues which reach out their fingers into the pockets of every man, be he rich or poor, I think I shall be justified in an attempt to discuss its provisions deliberately, in order to point out what I conceive to be the flagrant constitutional defects which are involved in it and the gross financial and business heresies which it contains.

Mr. President, let me analyze the bill. What does the first section provide? It has been gone over very frequently, but I shall go over it again in order to make clear what I shall endeavor to say.

The first section forbids options, which in the argot of the commercial gamblers are known as "puts" and "calls." Now, what is a "put" and "call," or an option, as defined in this bill? It is a contract by which a man gives to another a sum of money for the privilege of calling upon that man to deliver property, or for the privilege of delivering to him. It is a purely unilateral contract, by which a man gives a sum of money for the privilege of delivering or receiving property.

So far as this contract is concerned, or this so-called contract, I have no word of defense to raise, because it is a contract which engenders no obligation per se. The courts of this land, at least the courts in my State, have declared that it is a contract without consideration, which can not be enforced; that it involves within its bosom an element of chance which makes it purely aleatory, and therefore takes it out of the domain of all those great contracts around which the law throws the shelter of its protection and the instrumentalities for its enforcement.

The first section reads as follows:

"That for the purposes of this act the word 'options' shall be understood to mean any contract or agreement whereby a party thereto, or any party for whom or in whose behalf such contract or agreement is made, acquires the right or privilege, but is not thereby obligated, to deliver to another or others, at a future time or within a designated period, any of the articles mentioned in section 3 of this act."

What does the second section provide? The second section defines futures. What does it define futures to be? It defines any contract to be a future where the one selling at the time of sale is not the actual owner of the property, however real may be his intention to deliver at the time stipulated, and however great may be his means of fulfillment. What else does it provide? After defining this contract it then goes on to say that neither the Government of the United States, nor any municipality, nor any State, nor any farmer, in so far as he may have made a crop of have a crop in process of being made, shall be brought within the grasp of the provision. The amendment which has been adopted on the motion of the Senator from Minnesota also takes all retail dealers out of the reach of the second section.

Section 2 provides:

"SEC. 2. That for the purposes of this act the word 'futures' shall be understood to mean any contract or agreement whereby a party contracts or agrees to sell and deliver to another or others at a future time, or within a designated period, any of the articles mentioned in section 3 of this act, when at the time of making such contract or agreement the party so contracting or agreeing to sell and make such delivery, or the party for whom he acts as agent, broker, or employee in making such contract or agreement, is not the owner of the article or articles so contracted or agreed to be sold and delivered, or has not theretofore acquired by purchase, and is not then entitled to the right to the future possession of such article or articles under and by virtue of a contract or agreement for the sale and future delivery thereof previously made by the owner thereof: *Provided, however*, That no provision or requirement of this act shall apply to any contract or agreement for the future delivery of any of said articles made for and in behalf of the United States, or of any State, Territory, county, or municipality, with the duly authorized officers or agents thereof, nor to any contract or agreement made by any farmer or planter for the sale and delivery at a future time, or within a designated period, of any of said articles belonging to said farmer or planter at the time of making such contract or agreement, and which have been grown or produced, or at said time are in actual course of growth or production, on land owned or occupied by such farmer or planter; nor to any contract or agreement made with any farmer or planter to furnish and deliver to such farmer or planter at a future time, or within a designated period, any of said articles which are required as food, forage, or seed by such farmer or planter, his tenants, or employees."

The third section enumerates the articles which come under this provision. This section, when I come to comment upon it hereafter, I shall show, in my judgment, represents the greatest enormity in the bill.

"SEC. 3. That the articles to which the foregoing sections relate are raw or unmanufactured cotton, hops, wheat, corn, oats, rye, barley, pork, lard, and bacon."

That is the enumeration. The fourth section imposes taxes and licenses. It imposes a license of $1,000 and a tax of 5 cents on every pound of raw or unmanufactured cotton, hops, pork, lard, or bacon, and 20 cents per bushel upon every bushel of wheat, and so forth. Section 4 is as follows:

"SEC. 4. That special taxes are imposed as follows: Every dealer in 'options' or 'futures' as hereinbefore defined in this act, shall pay annually the sum of $1,000 as a license fee for conducting such business, and shall also pay the further sum of 5 cents per pound for each and every pound of raw or unmanufactured cotton, hops, pork, lard, bacon, or other edible product of swine, and the sum of 20 cents per bushel for each and every bushel of any of the other articles mentioned in section 3 of this act, the right or privilege of delivering which to another or others at a future time, or within a designated period, may be acquired by such dealer in his own behalf or in behalf of another or others under any 'options' contract or agreement as defined by section 1 of this act, or under any 'futures' contract or agreement as defined in section 1 of this act, or under any transfer or assignment of any such 'options' or 'futures' contract or agreement; which said amount or amounts shall be paid to the collector of internal revenue as hereinbefore provided, and by him accounted for as required in respect to other special taxes collected by him. Every person, association, copartnership, or corporation who shall in their own behalf, or as agent, broker, or employee of another or others, deal in 'options' or make any 'options' contract or agreement as hereinbefore defined, or make any transfer or assignment of any such 'futures' contract or agreement, shall be deemed a dealer in 'options'; and every person, association, copartnership, or corporation who shall in their own behalf, or as agent, broker, or employee of another or others, deal in 'futures' or make any 'futures' contract or agreement as hereinbefore defined, or make any transfer or assignment of any such 'futures' contract or agreement, shall be deemed a dealer in 'futures.'"

The fifth, sixth, seventh, eighth, ninth, and tenth sections provide for the enforcement of these provisions. I shall not stop to read them, but I will incorporate them in my remarks. You can find nowhere in any revenue legislation provisions more inquisitorial, more far-reaching, and more destructive of the liberty of the individual citizen.

The sections are as follows:

"SEC. 5. That every person, association, copartnership, or corporation engaged in, or proposing to engage in, the business of dealer in 'options' or of dealer in 'futures' as hereinbefore defined shall, before commencing such business or making any such 'options' or 'futures' contract or agreement, or any transfer or assignment of any such contract or agreement, make application in writing to the collector of internal revenue for the district in which he or any of them proposes to engage in such business or make such contract or agreement, or make a transfer or an assignment of any such

contract or agreement, setting forth the name of such person, association, copartnership, or corporation, place of residence of the applicant, the business to be engaged in, where such business is to be carried on, and, in case of an association, copartnership, or corporation, the names and places of residence of the several persons constituting such association, copartnership, or corporation, and shall thereupon pay to such collector as a license fee for conducting such business, the sum, aforesaid, of $1,000, and shall also execute and deliver to such collector a bond in the penal sum of $40,000, with two or more sureties satisfactory to said collector, conditioned that the obligor therein shall pay, or cause to be paid, the tax or taxes as herein provided, and for the full and faithful compliance, by such obligor, with all the requirements of this act; and thereupon the collector shall issue to such applicant a certificate, in such form as the Commissioner of Internal Revenue shall prescribe, that such applicant is authorized, for the period of one year from the date of such certificate and within such district, to be dealer in 'options' and 'futures' and to make, within such district, 'options' and 'futures' contracts or agreements, as hereinbefore defined, and transfers and assignments of such contracts and agreements, and for the period specified in such certificate the party to whom it is issued may conduct and transact the business of dealer as aforesaid. Such certificate may be renewed annually upon compliance with the provisions of this act: *Provided, however*, That so long as any tax provided in this act shall remain due and unpaid, the person, association, copartnership, or corporation from which such tax shall be due shall not, during the time such tax remains due and unpaid, conduct or transact the business of a dealer in 'options,' or conduct or transact the business of a dealer in 'futures,' and every person, association, copartnership, or corporation making, transferring, or assigning any such 'options' or 'futures' contract or agreement while any tax herein provided shall remain due from such party shall be subject to the fines and penalties hereinafter provided.

"SEC. 6. That it shall be the duty of the collector of internal revenue to keep in his office a book in which shall be registered a copy of each and every application made to him under the foregoing sections, and a statement in connection therewith as to whether a certificate has been issued thereon, and for what period, which book or register shall be a public record and be subject to the inspection of any and all persons.

"SEC. 7. That every 'options' or 'futures' contract or agreement, as hereinbefore defined, and all transfers or assignments thereof, shall be in writing and signed in duplicate by the parties thereto, and every such 'options' contract shall state in explicit terms the time when the right or privilege of delivering the article or articles therein named shall expire; and every such 'futures' contract shall state in explicit terms the day upon which or the last day of the period within which the article or articles therein contracted or agreed to be sold shall be delivered; and any such contract or agreement not including such statement, and not so made and signed, shall, as between the parties thereto and their respective assigns, be absolutely void.

"SEC. 8. That it shall be the duty of every person, association, copartnership, or corporation conducting or transacting the business of a dealer in 'options' or 'futures,' as defined by this act, and they are hereby required to keep a book in which shall be recorded, on the day of its execution, the date of each and every 'options' or 'futures' contract or agreement made or entered into, or which may be transferred or assigned, by such person, association, copartnership, or corporation in their own behalf, or in behalf of another or others, and setting forth the name and place of business of the person, association, copartnership, or corporation in whose behalf, as vendor, such contract or agreement shall have been made, the name and place of business of the party or parties, as vendee, with whom such contract or agreement shall have been made, the kind and amount of the article or articles which are the subject of, embraced in, or covered by each such contract or agreement, the time when the right or privilege of delivering such article or articles as are the subject of, embraced in, or covered by any 'options' contract or agreement shall expire, and the time when or the designated period within which delivery shall be made of the article or articles which are the subject of, embraced in, or covered by any 'futures' contract or agreement; and on making a transfer or assignment of any 'options' or 'futures' contract or agreement, shall, in addition to the facts or items above mentioned, also record in such book the names and places of residence or business of the assignor and assignee and the date of such transfer or assignment; and such book shall at all times be subject to inspection by the collector, deputy collector, and inspector of internal revenue, or any duly authorized agent of the Internal Revenue Department, who may make memoranda or transcripts therefrom.

"SEC. 9. That it shall be the duty of every person, association, copartnership, or corporation, and they are hereby required, on the Tuesday of the week next succeeding the date of the certificate issued to them, as hereinbefore provided, and on the

Tuesday of each and every week thereafter, to make to the collector of internal revenue for the district in which any 'options' or 'futures' contract or agreement shall have been made, transferred, or assigned, by such person, association, copartnership, or corporation, full and complete return and report, under oath and in such form as the Commissioner of Internal Revenue shall prescribe, of any and all such contracts or agreements made or entered into or transferred or assigned by such person, association, copartnership, or corporation during the preceding week, together with a statement of the articles embraced in or covered by each such contract or agreement, and the amounts, respectively, of each such article, and the name or names of the party or parties with whom each such contract or agreement, and any transfer or assignment of any such contract or agreement, shall have been made, and at the same time the party whose duty it shall be to make such return or report shall pay to such collector, upon and for each such contract or agreement, which such party shall have so made as vendor, and upon and for each and every transfer or assignment of any such contract or agreement which such party shall have made, as transferrer or assignor, the amount of tax as specified in section 4 of this act, of 5 cents per pound on each and every pound of cotton, hops, and of pork, lard, bacon, or other edible product of swine, of 20 cents per bushel on each and every bushel of any of the other articles mentioned in section 3 of this act which are the subject of, embraced in, or covered by such contracts or agreements, or any of them, for which sums said collector shall give his receipts to the party so paying. And such collector shall, upon the making of such return or report, enter in a book to be kept for that purpose the date of each such 'options' or 'futures' contract or agreement, or transfer or assignment thereof, included in such return or report, the name, residence, and place of business of each party thereto, and whether they appear as vendor or vendee, the kind and amount of each article which is the subject of, embraced in, or covered by such contracts or agreements, the amount of tax charged and collected thereon, and the date upon which such 'options' or 'futures' contract or agreement shall by its express terms expire or mature; which book or register shall be a public record, subject to the inspection of any and all persons. That the person, association, copartnership, or corporation making or entering into any 'options' or 'futures' contract or agreement, as defined in this act, or making any transfer or assignment of any such contract or agreement, either in their own behalf or in behalf of another or others, shall, upon filing with the collector of internal revenue the return or report aforesaid, in addition to the taxes hereinbefore provided, pay to such collector the sum of $2 as a registry fee for each and every such 'options' or 'futures' contract or agreement so made, transferred, or assigned and included in such return or report, and it shall be the duty of the collector of internal revenue, on the first secular day of each calendar month, to make a report to the Commissioner of Internal Revenue, setting forth the number of 'options' and 'futures' contracts and agreements, as shown by such book, which had not expired or matured on the last day of the preceding month, the kind and the amount of the articles which are the subject of, embraced in, or covered by such contracts or agreements, and the amount of taxes levied thereon; and a copy of such report shall be kept in the office of the collector of internal revenue and be subject to the inspection of any and all persons.

"SEC. 10. That every person, association, copartnership, or corporation, who shall in their own behalf or in behalf of any other person, association, copartnership, or corporation, make or enter into, as vendor, any 'options' or 'futures' contract or agreement as defined by this act, or make any transfer or assignment of any such contract or agreement, without having a certificate of authority from the collector of internal revenue, as hereinbefore provided, and covering the time at which such contract or agreement, or such transfer or assignment shall be made, or who shall fail or refuse to keep any book or make any record, return, or report hereinbefore required, or in lieu of any record, return, or report hereinbefore required shall make a false, fraudulent, or partial record, return, or report, or shall make or enter into any 'options' or 'futures' contract or agreement, or make any transfer or assignment of such, in form or manner other than as prescribed by this act, or shall fail or refuse to pay any of the taxes required by this act to be paid, or shall in any other respect violate any of the provisions of this act, shall, besides being liable for the amount of the tax or taxes prescribed in this act, for each and every such offense pay a fine of not less than $1,000 nor more than $20,000, or be imprisoned not less than 6 months nor more than 10 years, or be subject to both such fine and imprisonment.

"SEC. 11. That neither the payment of the taxes hereinbefore provided nor the certificate issued by the collector of internal revenue under this act shall be held to exempt any person, association, copartnership, or corporation from any penalty or punishment now or hereafter provided by the laws of any State or Territory for making, transferring, or assigning contracts or agreements such as are hereinbefore

defined as 'options' or 'futures' contracts or agreements, or in any manner to authorize the making, transferring, or assigning of such contracts or agreements within any State, Territory, or locality contrary to the laws of such State, Territory, or locality; nor shall the payment of the taxes imposed by this act be held to prohibit any State, Territory, or municipality from placing a tax or duty on the same trade, transaction, or business for State, Territorial, municipal, or other purposes."

The twelfth section, which the Senator from Minnesota has moved this morning to strike out, imposed a license upon every man doing the business which the proposed statute itself declared to be lawful. In other words, it brought every citizen making a contract for future delivery not embraced in the provisions of the proposed statute under the reach and grasp of the officers of the Government. The twelfth section is as follows:

"SEC. 12. That every person, association, copartnership, or corporation who shall make any contract or agreement for the sale of any of the articles mentioned in section 3 of this act and requiring the delivery of such article subsequent to the date on which such contract or agreement is made, and who, at the time of making thereof, is the owner and entitled to the possession of the article or articles which are the subject of, embraced in, or covered by such contract or agreement, or has theretofore acquired by purchase, and, at the time of making such contract or agreement, is entitled to the right to the future possession of such article or articles under and by virtue of a contract or agreement for the sale and future delivery thereof previously made by the owner thereof, shall, before making any such contract or agreement, or any transfer or assignment of any such contract or agreement, apply in writing to the collector of internal revenue for the district in which such person, association, copartnership, or corporation shall reside or have a place of business, setting forth the same facts as mentioned and required in the application referred to and provided for in section 5 of this act, and shall thereupon pay to such collector the sum of $2 as a license fee for making , transferring, or assigning, or for conducting the business of making, transferring, and assigning such contracts or agreements, and thereupon the collector shall issue to such applicant a certificate, in such form as the Commissioner of Internal Revenue shall prescribe, that such applicant is authorized, for the period of one year from the date of such certificate, to make, transfer, and assign contracts or agreements for the sale and subsequent delivery of any of the articles mentioned in section 3 of this act, of which such licensee at the time of making any such contract or agreement is the owner, or is then entitled to the future possession of under and by virtue of a contract or agreement for the sale and future delivery of such article or articles previously made by the owner thereof. And any person, association, copartnership, or corporation who shall make, transfer, or assign any such contract or agreement without having paid the license fee herein required, and without having a certificate from the collector of internal revenue authorizing the making, transferring, and assigning of such contracts and agreements, shall be subject to and be required to pay a fine of not less than $1,000 nor more than $5,000. Such certificate may be renewed annually on compliance with the provisions of this section. And such licensee shall keep a book in which shall be entered the date of, the names and places of residence or business of the parties to, the kind and amount of the articles the subject of, embraced in, or covered by any contracts or agreements for sale and future delivery which may be made, transferred, or assigned by such licensee under authority of the certificate provided for in this section, and the time at which delivery thereof is to be made; and in case of the transfer or assignment of contracts or agreements for sale and future delivery of any of said articles previously made by the owner thereof, or made by a party who has theretofore acquired by purchase and at the time of making such transfer or assignment is entitled to the right of the future possession of such article or articles under and by virtue of a contract or agreement for the sale and future delivery thereof, previously made by the owner thereof, the names and places of business or residence of transferer and transferee or of the assignor and assignee; which book shall at all times be subject to inspection by the collector or deputy collector of internal revenue, or by any duly authorized agent of the Internal-Revenue Department. Such licensee shall also make on Tuesday of each and every week, to the collector of internal revenue by whom the certificate herein provided for may have been issued, a weekly report of all such contracts or agreements or transfers or assignments thereof that shall have been made by such licensee during the previous week, which report shall contain all the facts and items hereinbefore required to be entered in the book to be kept by such licensee; and such report shall be entered by said collector in a book to be kept by him in his office for that purpose. And any such licensee who shall fail or refuse to keep the book and enter therein the fact and items as by this section required, or shall fail or refuse to submit such book to the inspection of the collector, deputy collector, or duly authorized agent of the Internal-Revenue Depart-

ment, or who shall fail or refuse to make report to the collector of internal revenue as by this section required, shall for each and every such failure or refusal be required to pay to such collector a fine of not less than $100 nor more than $5,000. And it shall be the duty of the collector of internal revenue to keep in his office a book in which shall be registered a copy of each and every application made to him under this section, and a statement in connection therewith as to whether a certificate has been issued and for what period, which book or register shall be a public record, and be subject to the inspection of any and all persons.

The thirteenth section provides inquisitorial means of visitation and search and examination of books. It provides that the internal-revenue collector shall have the power, whenever he suspects that a business man is violating this statute, to demand an examination of his business and an inspection of his books for the purpose of satisfying himself that the law is being carried out.

I call the attention of Senators to the fact that the thirteenth section is as broad as any man's right to sell any property for future delivery, whether or not that property is brought within the grasp of futures and options as defined in the bill.

Now, the distinguished Senator this morning does what? On a motion made to strike out the twelfth and thirteenth sections he says he will agree that the twelfth section shall be stricken out, but he objects to the thirteenth section being stricken out. He strikes out the only possible reason for the powers of search and visitation found in the thirteenth section. He strikes out the license provided in the twelfth section, by which alone the thirteenth section could be justified, and he keeps vested in the officers of the Government the arbitrary powers created by the thirteenth section, and which the bill itself admits are to be exercised against a man pursuing an avocation which the bill itself recognizes as legal, and thus should be removed from inquisition.

The following sections of the bill are full of other penalties. Let us stop for a moment and ask ourselves the question what the bill does.

Mr. President, there can not be any question that the contract which the bill strikes at in its second section is a lawful contract. That is removed beyond the domain of controversy. The question whether contracts for future delivery are valid contracts has been before every court in this land. It has been to the Supreme Court of the United States; it has been to the courts of last resort in almost every State in this Union, and it has been crystallized in a body of jurisprudence now passed beyond question that it is absolutely as lawful for a man to sell for future delivery as it is to sell for present delivery; that there is no earthly difference between the two; that they are both valid contracts protected by the law, enforced by the courts, provided only, what? Provided only that either of the parties to the contract has an honest intention to deliver.

The purpose, then, of this bill is to strike down contracts which can be validly entered into, protected by the judgments of the courts of last resort of all this Union. I challenge any Senator upon this floor to produce a single modern authority which does not recognize that the right to make these contracts under the dominion and jurisdiction of the State courts is as absolutely sacred and as well protected by the ægis of the State law as is his right to hold his home, or any other right that he has within the dominion of the State.

This, then, is a proposition that the Federal Government—and, Mr. President, I hate to reargue this question with the eloquent and able, vigorous and incisive argument and denunciation of the Senator from Missouri [Mr. Vest] on yesterday ringing in the ears—this, then, is a bill licensing the Federal Government to step over the State line and destroy any contract made within a State between citizens of the State which the Federal Government may choose to destroy. That is the power which this bill asserts. If it does not assert that power, it does not assert any power.

Is it denied that these are valid contracts? Is it denied that they are contracts made under the State law and under protection of the State courts? Is it denied that this bill strikes at contracts between citizens of the State and a *res* or a thing within that State? That being the case, I ask Senators, mindful of their great oath to support the Constitution of the United States, where within the four walls of that Constitution can they find a pretext for this great usurpation of authority? If the theory which this bill propounds is true, every vestige of State autonomy has been wiped off, and to-day, instead of having a government of limited and restrictive powers, each government moving by the force of constitutional gravity in its own orbit, we stand the most unlimited and arbitrary government on the face of God's earth.

Now, how will Senators justify this measure? I put it to every Senator, does this power exist in the Federal Government? I challenge any Senator to say that he believes the power exists in the Federal Government to go into a State and destroy

contracts made between citizens of the State protected by State laws, contracts outside of the domain of Federal jurisdiction. Can the Federal Government regulate marriage; can it regulate divorce; can it determine the title to property; can it pass upon the tenure by will; can it usurp all the functions reserved to the States as a necessary part of the existence of the State governments? If it can not do these things, by what mandate of authority can this proposed law be put upon the statute books?

Ah, but I am told that this is a taxing law; that it is an exercise of the taxing power. It is a tax that does not tax. I call attention to this distinction. On the very face of the bill not even a pretext of taxation can be found. By the very terms of the bill on tax can result from its provisions. The only section in the bill which could possibly lead to the collection of a tax and give even a semblance of constitutionality to the bill was the twelfth section, which imposed the $2 license upon a lawful business; and the Senator from Minnesota proposes to take that out.

Now, then, the question results and comes down to this, and we must meet it: Can the Federal Government by the abuse of the taxing power abrogate and destroy every limitation found in the Constitution and every reservation in favor of the States? That is the question. It can not be evaded.

Ah, but it is said this is an exercise of the taxing power, and although it is an exercise of the taxing power which does not tax to produce revenue, we will declare in this bill that we propose to tax for revenue, although we do not propose to do so. If we do violate the Constitution in doing this, when it goes to the court of last resort it will not be able to decipher the false purpose of the bill and will therefore hold the bill not to be unconstitutional. Why will the court hold it not to be unconstitutional? Not because it is not unconstitutional, but because we have breathed into this law a living lie, because we have declared that our purpose is to tax for revenue, when every line and letter of the bill says the bill is not an exercise of the taxing power at all, but an attempt to destroy the very framework of the Constitution by going into the States and doing that which the Federal Government confessedly has no power to do.

Mr. President, some question was raised yesterday as to the power of the court to reach this bill. That question does not concern me when I exercise my right to vote upon this floor. If it be true that under the Constitution there has been lodged in the Senate a power by a declaration of purpose to prevent unconstitutional enactments from being reached by the courts, then the necessary effect of the Constitution is to have made this Senate the court of last resort, and we stand here now called upon, with the great responsibility which rests upon us, not to say what a tribunal would say if the power had been lodged with it, but to say what this great tribunal should say in the face of this patent and glaring and flagrantly unconstitutional act.

But I do not follow and agree with the admissions on this subject made by the distinguished Senator from Missouri yesterday. I do not agree to them because I believe the premise upon which they are founded is destructive of this Government. The glory and the ornament of our system which distinguishes it from every other Government on the face of the earth is that there is a great and mighty power hovering over the Constitution of the land to which has been delegated the awful responsibility of restraining all the coordinate departments of the Government within the walls of that great fabric which our fathers builded for our protection and our immunity forever.

It is perfectly true that in two or three cases the Supreme Court of the United States have said that where on the face of a statute there was the exercise of taxation, as the statute on its face was a taxing statute, the court would not destroy the face of the statute by wiping out the taxing provision in the statute with the sponge of the motives which may have actuated the Members who passed it. Is that the case here? Where the face of the statute shows no tax, where the face of the statute itself eliminates all human possibility of the exercise of the taxing power for revenue, then I say the mission of jurisdiction is given to the courts of this land to brush that statute away for its flagrant and open violation of the Constitution. Is this not necessarily true?

Now, let us reason out the consequences, if it be not true. If this be not true, then the beautiful system by which, as I said just now, all the departments of the Government move in a common orbit, vanishes out of the sideral universe of government, and passes into confusion and chaos. The precedents are against it. The power which the Supreme Court of the United States exercises in the review of statutes is like unto the power exercised by the supreme courts of all the States. The books are full of cases in the State courts drawing the distinction which I have made. In the Topeka case it is drawn in plain words by the Supreme Court of the United States. There a Government appropriated a sum of money, declaring it to be for a public

purpose. The case went to the Supreme Court of the United States, and it said your motive and your purpose can not be inquired into. That is removed beyond the domain of controversy or question. But where you have called the statute one thing and in the very terms of the statute indicate another thing, and that either thing is outside of the powers of government, then it is not a statute at all, but it is a violation of authority and we strike it from the statute books.

That, in my opinion, is what should be the fate of this measure. The only semblance of authority within the Constitution, as I have said, was the twelfth section, which put a license of $2 upon a business admittedly lawful, which the Senator from Minnesota proposes this morning to strike out. Climbing up this lofty tree under which he thinks all the great commerce of this country is to find shade and shelter, and under which I think death and destruction, like a upas, is to come, he saws himself down by cutting off the only possibility of constitutionality which was in the bill.

What does the Senator from Minnesota say? I wish to call attention to it. Of course, everything I say is with the greatest respect and kindness to him. I suppose when he made the argument which I shall quote in a few moments, he thought it would rally all the Senators on the other side of the Chamber and make them feel that they could not question the constitutionality of this bill without questioning the constitutionallity of that system of taxation which they have espoused almost from the foundation of the Government, and which they espouse now to an extreme degree, how extreme I will not comment upon, because I do not propose to enter into that question. What does the distinguished Senator urge? He says:

"One thing is perfectly clear to me, that if this bill is unconstitutional for the reason that we have no right to use the taxing power, except for the purpose of raising revenue, then there has never been a Republican protective tariff but that has been in violation of the Constitution. A duty may be so high, placed with a view of protecting some production for the purpose of increasing or regulating its market value, and not absolutely prohibitory, yet so long as it was not laid for the porpose of raising revenue, it would still be obnoxious to this construction of the Constitution. But there are numerous cases where this duty is absolutely prohibitory, and so intended, and so made for the express purpose of suppressing the importation of articles that come in competition with those produced in this country."

The purpose of this argument is this: This bill, which destroys all the rights of the States and acts internally upon the people of the State and on contracts protected by State laws, must be valid, and you must hold it so or you must declare that the whole policy of the Republican Party is and has been wrong.

Mr. President, in my judgment that is absolutely and fundamentally a fallacy. It overlooks the clear distinction between the nature of the power lodged in the Federal Government for the purpose of imposts and the nature of the taxing power lodged in the Federal Government for the purpose of internal taxation. When the Federal Government deals with imposts the Constitution has vested in it the power which would be vested in any Government in that regard.

No power as to imposts was reserved in the States by the Federal Constitution. All the lawful powers of government which could be exercised in that particular passed into the life and being of the Federal Government by the lodgment in the Government of the power to levy imposts—imposts deal externally, beyond our borders. Beyond those borders the power of the Federal Government was restricted and restrained by no limitation resulting from a reservation in the Constitution.

Mr. President, in my judgment, if complaint is made of impost tax by the Federal Government levied not for the purpose of revenue, but for protection or prohibition, the complaint is not that the Federal Government violates the Constitution or the limitations of the Constitution, because as to that all authority is granted by the Constitution. When I say this, I mean no limitation by the Constitution by express provision of the Constitution. The complaint of undue or prohibitory external imposts is not that the Constitution has been violated.

No; but that there has been a violation of the great fundamental and elementary principle of all government, which underlies all constitutions, which affect this Government and every government, and which would affect the most unlimited government in the world. These principles are that government is created with limitations flowing from the nature of its being, which teach that no government shall use its power for the benefit of the few to the detriment of the many. Therefore, all the arguments which have been made on the subject of the abuse of the impost power in the Federal Government are arguments addressing themselves not to the limit of delegation under the Constitution as to imposts, but to the want of power arising from the very nature of government itself.

In other words, I contend that where power to destroy exists the use of a wrong instrumentality to do the destruction may be the abuse of an instrumentality but

not an abuse of power, because the power to destroy is vested. But where the power to destroy does not exist, the use of an instrumentality to destroy that which there is no power to destroy is not alone an abuse of the instrumentality but an usurpation of power itself. Now, the usurpation of power by Congress not vested by the Constitution in Congress is unconstitutional. This being true, it follows that if the usurpation is clear on the face of the act, if the act itself shows the usurpation, the power exists in the Supreme Court of the United States to prevent the usurpation.

The distinguished Senator made two quotations on this subject. Both of them draw this distinction in the broadest way. One quotation is from Judge Cooley and the other is from Judge Story. Both of them call attention to the fact that when it concerns import tax the question is as to the fairness and the rightness, if I may use the word, and not as to the question of constitutional power:

"Indeed, in some cases where impost duties are laid, revenue is no part whatever of the motive for imposing a particular duty, but it is made so high that it is expected to preclude all importation, and therefore produce no revenue. A person objecting to the duty may complain that it violates the true principles of government, but he would hardly venture to attack it as being so distinctly beyond the constitutional power of Congress that in the courts it might be assailed as wanting in legal validity. He may question its policy, but he can not well question its constitutionality."

Says Justice Story:

"It is often applied as a virtual prohibition upon the importation of particular articles for the encouragement and protection of domestic products and insustry."

These are the doctrines, Mr. President, which have been applied by this Government, standing with its face looking beyond our borders at the millions lying beyond. But when turned inward we behold the system of States with all the great rights reserved to them by the Constitution. We see them with their police power, and their legal autonomy, and their right of contract, and their right of property, and everything that has been preserved to us by the Constitution. These rights and their recognition and preservation have given us a hundred or more years of being, and without them war and tumult and misery and suffering would come. The rudiment of all these rights is found in the principle that every power not delegated under the Constitution to the Federal Government is reserved to the States. Yes; the distinguished Senator, in looking at this bill, puts on his marine glasses, and turning to the American people proposes to put upon the great sisterhood of States the shackles of the foreign jurisdiction. He does this, although his bill deals not with that which is foreign, but with all those great rights of local self-government which are ours, ours to-day and to-morrow and forever.

I doubt very much whether this argument will reach the distinguished Senator from Minnesota, because in the course of his able speech he says:

"The Constitution, which at its adoption was supposed to have in view some reference, at least, to the 'general welfare' of the people, is now almost invariably invoked by constitutional pugilists to resist all reforms and all attempts directed against wrong and abuse."

I can well imagine that the distinguished Senator must have been in the frame of mind which this language indicates, when his hand could have the strength to write or his mind the power to conceive that there exists in the Federal Government any power to go into your State, sir [pointing to the Senator from Missouri], or the State of Maine, or any other State in this Union, and destroy by a surreptitious attempt to pervert the taxing power, the rights of the citizens of the States to contract among themselves.

I know, therefore, that the frame of mind I am in and the frame of mind the distinguished Senator is in are so wide apart, that we move in such different conceptions of the respective relations of these governments to each other, that I am afraid I will never be able to reach him by argument.

Mr. President, I think we ought to be entitled to discuss this measure without sneer, without gibe, without reaching out the hand to stir up—I was going to say the smoldering ashes of past conflicts; but, thank God, even the ashes of that conflict have passed away; I know the American people have forgotten it, except for the lessons which it has taught us all, that within the walls of the Constitution and by adherence and respect for it, united in a common brotherhood, lie alone our future hope of happiness and protection.

The distinguished Senator says:

"It is seriously to be regretted that some of our 'constitutional friends' did not regard this sacred instrument with as much reverence and stand ready to guard it with the same pathetic solicitude in a time not very remote as they do at present."

Thus the discussion of this antioption bill is to revive the feelings of the war, and sneer and gibe are cast at this side of the Chamber because there are those here who adhere now to those great principles of constitutional government which they think involve the very structure of the Constitution. The germs of the fierce Civil War through which we passed were sown at the birth of our institutions. Both sides in that awful conflict were true to the Constitution as they understood it.

Mr. President, the men who took part in the war on the southern side were not like the Senator from Minnesota—careless of constitutional obligations. Whatever may be the conception as to the mistake of their opinions—and we all concede that the mighty arbitrament of war has decided they were wrong—no one in this day or any day hereafter, whatever may be the censure which he puts upon the judgment of the southern people, questions the sincerity of their convictions or their great purpose to adhere to the Constitution as they understood it. Their blood sealed their fidelity to their duty as they conceived it. I have seen somewhere a thought of the great war governor of Massachusetts, saying that whatever might be the judgment of history upon the wisdom of the southern people, history would hold that, mistaken as they were, they were heroes because of their devotion to their constitutional mistake.

I believe now, sir, that as time goes by the world will see their magnificent heroism more and more, and that the vision of the southern poet will be fulfilled:

In seeds of laurel in the earth,
The blossom of their fame is blown;
And somewhere, waiting for its birth,
The shaft is in the stone.

But, Mr. President, the view of the Constitution which the other side upholds is, I suggest, a reflection on that magnificent and gallant body of men who formed the Union hosts of this country. What did they fight for? What did they die for? For what was their blood poured out in priceless currents? If we believe the consequences of the argument of the distinguished Senator from Minnesota, it was poured out in order that we might have no Government, no States, no autonomy, and that our Constitution might be destroyed.

I should rather not pass the judgment upon those gallant men which the argument of the Senator from Minnesota does. I should rather rely upon the judgment of the immortal Lincoln, who said at Gettysburg, in that speech which will carry his fame down to the uttermost end of time, "They died in order that this Government might live." Live how? Live, as the argument of the Senator from Minnesota would hold, without restriction and without restraint of any kind, with the States destroyed, with all rights gone, with a mighty despotism built up, and that despotism all the more flagrant and all the more outrageous because it would depend solely upon popular clamor or popular whim as to the existence or nonexistence of an evil.

Mr. President, there can not be any doubt as to the unconstitutionality of this measure. The distinguished Senator from Oregon (Mr. Mitchell) yesterday asked upon this floor my very polished and eloquent friend, the Senator from Virginia (Mr. Daniel), whether he thought the courts would declare this bill unconstitutional. I should like to ask the Senator from Oregon a question, through the chair, now, if he will permit me, and that question is this: Does the Senator from Oregon think this bill has for its object the lawful and legitimate exercise of the taxing power?

Mr. MITCHELL. I am bound to take the bill for what it purports to be. I have seen no reason to inquire of those gentlemen who introduced the bill, or of the committee that reported it, whether there is anything about it that does not appear on the face of the bill; and I have no doubt the Supreme Court of the United States will hold the very same view if it should ever become a law and go before that tribunal for construction.

Mr. WHITE. Will the Senator vote for a provision declaring that this bill has for its object the destruction and prevention within the States of the things contemplated as declared by the Senator from Minnesota?

Mr. MITCHELL. No, sir.

Mr. WHITE. Will the Senator's vote, "yea" or "nay," on this bill be controlled by the fact that it will accomplish that purpose?

Mr. MITCHELL. At present, Mr. President, I do not exactly see that I am on the witness stand to be catachised.

Mr. WHITE. I beg the Senator's pardon.

Mr. President, I put these questions because when the Senator asked the question on yesterday, to me they indicated a depth of political degeneration—of course I do not say this with reference to the learned Senator from Oregon—but I mean of political degeneration of opinion abstractly which can be successfully defended nowhere.

Who shall say that if this bill is not really a revenue bill and we declare it to be so we will not be concealing our purpose and expressing a fraudulent purpose?

There has been some question raised about the case of Veazie against Fenno, as bearing upon this issue. It is said, Why, did you not impose a tax of 10 per cent upon State banks upon their circulation, and did not the Supreme Court declare that valid? That case is cited as authority now. It is always the way. It has been that way since the foundation of the Government. If ever a decision is made in any way looking toward the destruction of the lawful powers of the States, arguments have always come up to pervert, to extend, to vitiate, and to amplify in order that there may be authority for a stretch of power and thus take some further liberty from the people. Now, what was the Veazie against Fenno case?

I know nothing which can throw more light upon a case than the brief of counsel. In the discussion of that case there was no statement by counsel that the question involved was the perversion of the taxing power. The attack made upon the statute was this: That this statute was unconstitutional because it taxed a State corporation.

When that went to the court, what did it say? The Constitution has lodged in Congress the power to regulate currency. In the exercise of that power Congress has authority to wipe out a State corporation by taxation. True the court, arguendo, said that it was either a tax or a prohibition. If a prohibition, the constitutional authority lying back of the statute was found—where? In the clause delegating to Congress the power to regulate currency. If a tax, it was not illegal, because Congress had the power to use the taxing power to prohibit that which it had the right to prohibit under another provision of the Constitution.

The case does not cover the question now here. It does not intimate the power to surreptitiously use the taxing power which is here presented. It is true the court, arguendo by the Chief Justice, made use of expressions which may be misconstrued and which are now used to support the contention that Congress has, by pretending to tax, the power to destroy every limitation found in the Constitution. This case does not so decide. It seems to me that ends this contention.

This brings me to the oleomargarine bill. This was the situation at that time, and I call attention to it: The statute as originally introduced contained a prohibitive tax. Although there was an enormous pressure for its passage, some of the gentlemen who were called upon to support it and whose constitutional stomachs were not so weakened and enfeebled could not digest it. What did they do? They reduced the tax down within a revenue-producing capacity. That statute recognized the distinction which I made just now between the power of the Government to exercise internal and external taxes, the difference between imposts and internal taxation, since, although in that act they made the impost tax absolutely prohibitive, they reduced the internal to a revenue basis on its face in order to make it constitutional.

This, then, was a case where motive might deprive the court of the power to examine into the constitutionality of the statute because on the face of the statute it was the exercise of a revenue power. I admit that.

Mr. MITCHELL. Does the Senator think that a reduction of the tax in this case to such a figure that it would admittedly be the means of raising revenue, and under which parties engaged in these transactions would go on, would render this bill constitutional?

Mr. WHITE. Does the Senator mean leaving in the $2 tax?

Mr. MITCHELL. No, sir. The point is this: Suppose the tax were reduced to a revenue basis so that the tax would be paid, in which event it would clearly be a revenue bill according to the ideas of the Senator from Louisiana.

Mr. WHITE. Oh, I must beg the Senator's pardon. The Senator must understand the distinction. I am speaking now of the power of the court on the face of the bill. The bill might, on its face, be a revenue bill and might to me be constitutional. But in the exercise of my function here I would not vote for any bill if it raised a fraudulent revenue, provided I thought it was intended to prohibit.

Mr. MITCHELL. I understood the Senator to say that because the tax was reduced so that it was for revenue on its face that enabled the court to declare that it was constitutional.

Mr. WHITE. I say that would have enabled the court, and it enabled the President to not veto it, because, Mr. President, it is perfectly self-evident when a bill which is a revenue bill comes to me for consideration as to whether I will vote for it or not, it may be to me—if I may be allowed to use the word, a philosophical word—subjectively unconstitutional, not unconstitutional per se, and I may not vote for it as constitutional, because I know that although it is a revenue bill, there is a purpose of destruction and prohibition contained in it. But when it comes to the court, the court can only look at it objectively. The court must look at its provisions, and if on its face it is a revenue bill, if on its face it be for the purpose of raising revenue, the court will say that it can not consider the motive, but must decree its enforcement.

Yet where on its very face it is not a revenue bill, then even objectively to a court it is unconstitutional, and the court, in my judgment, doing its great duty, will stamp upon it the brand of unconstitutionality. I think the distinction is very clearly drawn in the message of Mr. Cleveland, in which he announced his signature to the oleomargarine bill:

"It has been urged as an objection to this measure that while purporting to be legislation for revenue, its real purpose is to destroy, by use of the taxing power, one industry of our people for the protection and benefit of another.

"If entitled to indulge in such a suspicion as a basis of official action in this case"—

Now, here are the two cases, one "if entitled to indulge in such a suspicion," and what?—

"and if entirely satisfied that the consequences indicated would ensue, I should doubtless feel constrained to interpose Executive dissent."

That is the illustration. That is the object lesson, for objectively when this statute came to him within its four walls there was a revenue created, and he, in the exercise of his Executive power and Executive prerogative, did not come down and go into the hearts of men and do that thing which God alone can do, search out the understandings of men and know their wicked purposes. He took the object as it came to him and passed upon it as such, but he was careful to say in this message that if that bill had not presented that aspect to him, he would have been constrained to exercise the Executive veto.

I hold in my hand, which I will print as a part of my remarks, the revenue collected from the oleomargarine tax.

Statement showing total receipts from all oleomargarine sources for each fiscal year from November 1, 1886, the date the oleomargarine law took effect, to June 30, 1891, inclusive.

Oleomargarine.	Eight months ended June 30, 1887.	Fiscal year ended June 30, 1888.	Fiscal year ended June 30, 1889.	Fiscal year ended June 30, 1890.	Fiscal year ended June 30, 1891.	Aggregate receipts.
Oleomargarine, domestic and imported.	$435,924.04	$653,355.10	$677,302.40	$619,205.72	$871,488.44	.....
Manufacturers of oleomargarine (special tax).....	31,700.00	17,150.00	12,400.00	11,700.00	6,950.00	.....
Retail dealers in oleomargarine (special tax).....	154,924.00	123,258.54	130,631.51	100,068.00	146,293.70	.....
Wholesale dealers in oleomargarine (special tax).....	101,400.00	70,376.24	73,914.00	55,318.00	53,192.00	.....
Total.....	723,948.04	864,139.88	894,247.91	786,291.72	1,077,924.14	$4,346,551.69

The aggregate receipts have been $4,346,000, and the revenue has been increasing day by day and year by year. Will anybody say that that statute is on all fours with this? Will anybody hold that a bill which has raised more than four millions of revenue, and where the revenue has been accumulating year by year, is like unto a bill which within its necessary intendment and on the very face of the statute not only is not intended to raise revenue but, on the contrary, can not under its terms raise a dollar of revenue?

There are gentlemen upon this floor, my peers in everything, my peers in heart, and my superiors in head, who have said to me that they could not see the distinction between those two statutes.

Mr. MITCHELL. Will the Senator allow me?

Mr. WHITE. Certainly; with pleasure.

Mr. MITCHELL. I understand the Senator concedes that that bill was constitutional.

Mr. WHITE. As regards the President, when it came to him.

Mr. MITCHELL. Just as well as when it was before the Senate.

Mr. WHITE. I never conceded that; on the contrary, I disclaimed it.

Mr. MITCHELL. But as it came to the President?

Mr. WHITE. I say that it was constitutional, objectively, when it went to the President. It was unconstitutional, subjectively, as it was passed upon by the

Senate. That is what I say, and my words can not be distorted. If the difference between object and subject do not present themselves to the Senator's mind, if the darkness of night and the light of day do not penetrate his mind, I must ask for some greater power of explanation than I have.

Mr. MITCHELL. My perceptions may be somewhat obtuse, so far as that is concerned, but I wish to understand the Senator, if it does take a long time to get at precisely what he is driving at. I confess I am a little confused, although I am very much interested in his very able and interesting argument.

The Senator concedes that the oleomargarine bill after it came from the President was a constitutional act; that act was constitutional because not only on its face but the very purpose of it, considered from every and any standpoint, was to raise revenue, as I understand the Senator.

Suppose the tax provided for in the pending bill was reduced to 5 cents, instead of being at $2; suppose the tax were reduced to a sum where all would admit that revenue would be raised to a point where under the law parties would go on and make these contracts and pay the tax. Now, the Senator will admit, so far as that particular aspect of the case is concerned, it would be a proper exercise of the taxing power.

Mr. WHITE. I beg the Senator's pardon——

Mr. MITCHELL. One moment. So far as that particular aspect of the case is concerned, I suppose the Senator will concede that that would be a proper exercise of the taxing power; but whether the object to which it is applied is a proper one is perhaps a different question. The object to which the tax was applied in the oleomargarine act was a representation of butter, but in this case it is proposed to be applied to certain contracts.

Now, I understand the Senator's first objection to this bill is that it contemplates invoking the taxing power when the real purpose is not to raise revenue, but to crush out certain things. I understand that is the first objection of the Senator. But suppose that was avoided in the way I have suggested, then is the other and the only objection that the Senator has to this bill that it interferes with what he regards as valid contracts between parties in a State? Is that it?

Mr. WHITE. Mr. President, I have endeavored to make myself reasonably clear. What I say is this, that if a bill actually raises revenue and is presented to my mind, in the exercise of my duty, under my oath of office here, I have two questions to ask myself: Is this a bill raising revenue? That is the first question. If I determine that question in the affirmative, the lamp of my duty might lead my mind toward supporting that bill, but it could not carry me to that point unless another question were also answered, and that conveys the entire answer to the Senator's question. Is it an honest exercise of the taxing power, or is it a dishonest scheme to raise revenue and accomplish another purpose? If my mind in the exercise of my duty here found that either of these things existed, then, although it was a bill raising revenue, I would not vote for a dishonest bill raising revenue.

Mr. MITCHELL. But suppose there is no objection, so far as that aspect is concerned, then I want to get the other objection.

Mr. WHITE. If I were the Executive or a judge and the bill came to me, then, having passed out of this sphere and into another sphere where motives could not enter, I should say the sole question presented to me was, Does it raise revenue on its face? And if so, I would hold it constitutional.

Mr. HIGGINS. Will the Senator yield to me for a question?

Mr. WHITE. Certainly.

Mr. HIGGINS. I should like to ask the Senator from Louisiana whether he considers that the power of the President to veto a bill which has passed the two Houses of Congress is confined, in his opinion, to its unconstitutionality, or whether he has not just as much power as the House of Representatives or the Senate to consider the motives which may be behind the bill?

Mr. WHITE. I beg the Senator's pardon. I did not quite catch his last sentence.

Mr. HIGGINS. I will again state my question. I ask whether the Senator considers that in vetoing a bill the President has no power to do it on any other ground than that it is unconstitutional in his opinion, or whether he has not the power to go behind the motive as much as a Member of either House of Congress?

Mr. WHITE. I hope that when the mantle of the Presidency falls upon the distinguished Senator from Delaware he will decide that question for himself. I shall not enter into that discussion now.

Mr. HIGGINS. The Senator has assumed that such a bill as the oleomargarine bill could be signed by the President, and was signed by President Cleveland, within his power and competency, on the ground that President Cleveland could not go behind the motive of the bill or to the motive of the bill?

Mr. WHITE. The Senator from Delaware falls into an error. I have said nothing of the kind. I read the declaration of the President, and I said whether he was right or whether he was wrong—and only God himself is always right—in the exercise of his authority and of his power, under his mission and mandate under the Constitution, within those limitations that he thought he should exercise in the discharge of the duties of his great office he signed the bill for the reasons given by him, and I am not here in the discussion of the present subterfugeous and cheating system of taxation to be led astray into a discussion of the power of the President in the exercise of his veto.

Mr. SANDERS. Mr. President——

The VICE PRESIDENT. Does the Senator from Louisiana yield to the Senator from Montana?

Mr. WHITE. I would rather not yield further, if the Senator will pardon me. I am heated, and I have got an extended argument to make. If the Senator will just allow me to proceed with my argument, I shall be obliged to him. I do not intend to be discourteous to him.

The VICE PRESIDENT. The Senator from Louisiana declines to yield.

Mr. WASHBURN. Will the Senator allow me?

Mr. WHITE. I will yield to the Senator in charge of the bill.

Mr. WASHBURN. In the article of Judge Cooley in the Atlantic Monthly for April he takes the ground squarely and unqualifiedly that the taxing power of the Government could be invoked to destroy lotteries, not for the raising of revenue but for the absolute destruction of lotteries in the country, and he cliams that this is the only way that it can be permanently accomplished. Now, let me ask if there is any distinction between the position taken in regard to lotteries and the suppression of a very much graver character of gambling than selling lottery tickets?

Mr. WHITE. In the comment I made upon the excerpts from Judge Cooley, to which the distinguished Senator referred, I confined myself solely to the quotation made, and I read that quotation. That quotation refers to imposts, and therefore I discussed the particular question. I can not discuss here all the opinions of Judge Cooley in a magazine article upon every conceivable question, but I may say to the distinguished Senator, in answer to the question which he puts me, that there has been no man in these United States more unalterably opposed to the extension of the Louisiana lottery than I. When my people were clamoring for its suppression and crowding upon me petition after petition to introduce a bill suppressing the Louisiana lottery by the exercise of the power of Federal taxation, I said to them, "Great as is this evil, there is an evil yet greater, and that is the disruption and the destruction of all the great principles of our Government by calling upon the Federal Government to do an illgal and unconstitutional thing."

Mr. WASHBURN. The Senator has not answered the question which I proposed, which was whether there is any distinction, whether if we have the power to suppress the Louisiana lottery or any other lottery by invoking the taxing power, we have not the same power to invoke it to suppress gambling in food products?

Mr. WHITE. I will discuss that question when I come to it. I have already said that I declined to introduce a bill taxing the Louisiana lottery by the Federal Government because I thought it violated the Federal Constitution. That is an answer to the Senator's question.

Mr. President, I have reviewed the proposed statute from its constitutional point of view, but I wish to approach it from another point of view; and in looking at it in this way I entirely put by the constitutional question, I eliminate that entirely from what I have to say. I am supposing now that this proposed statute is within the walls of the Constitution. What then? Should we look only at constitutional questions? If the distinguished Senator were to introduce a bill to-morrow, taking the property of the Senator from Missouri and giving it to the Senator from Georgia and it were within the Constitution to do so, would I vote for it because it was constitutional?

There are great principles which underlie constitutions and which should control all legislation. There are great elementary conceptions of government, of English-speaking government, born coeval with our race, and which have made our race the dominating race of the world. We should follow them. Every elementary principle known to English-speaking legislation violated in this bill in every line and every page of it.

Let me see if that is true. What does the bill say? The bill defines options. The bill defines futures. Is the definition general in both cases? It is. Now, if the proposed statute stopped there and contained its penalties, then every human being and every contract for options and futures wherever our administration extended would be brought within the provisions of a general statute. Does this bill do that? No; it is discriminating from one end to the other; it is flagrantly and openly discriminating.

After defining options and futures, then the bill goes on to say, not that all contracts of that kind within this broad land shall come within the reach of this general statute; no, but it picks out particular things and particular subjects matter to make them alone the subjects of the general law, which, if it has any foundation in public necessity or public right, should operate over a sway as broad as our jurisdiction.

Now, to what is the bill applied? Let me read. I have it here, and I will stop a moment and read it. Just think of it. Here are these contracts, and here are these general definitions. What does it, the bill, say?

"That the articles to which the foregoing sections relate are raw or unmanufactured cotton, hops, wheat, corn, oats, rye, barley, pork, lard, and bacon."

And there it stops. Of all the vast objects of contract in this land it makes a general definition, and then singles these out alone to cover them by the provisions of the statute. Is there a Senator who does not admit that from the day of Magna Charta down the first and the elementary principle laid down by the English-speaking people is that general laws should operate generally and that no discrimination should be exercised? The distinguished Senator from Mississippi [Mr. George] helped to frame a constitution in his State recently. I venture to say that in the exercise of the power vested in the Legislature of the State of Mississippi this discriminating clause would be stricken with constitutional paralysis because it was not a general law.

There is not a modern State constitution in this Union which has not put its anathema on discrimination. How, then, is this bill justified? I do not know. By what rule has it been written? What has been the prescience which has looked over all this land and picked out these particular objects to make them alone the subject matter of this discriminating law?

Mr. President, be the clamor what it may, I know my people well, and I should not be afraid to go with my vote before them with this third section in my hand and invoke their ordinary sense of common American fair play and feel absolutely confident of their denunciation of this attempt to discriminate in favor of one product as against another product.

How is this justified? I have heard some talk about agricultural products. My mail has been burdened every day for a month almost with some circular gotten up by some committee somewhere. The Senator says that this bill is in the interest of the farmers, that the farmers are scattered, that they are not organized and can not protect their rights, and therefore they must be looked after. My mail has been burdened with private letters, telegrams, circulars, newspapers, pamphlets in favor of the bill which has engendered in my mind a deep-seated alarm that there is a mighty conspiracy against the consumers of the country and in favor of certain favored persons, and I think I can demonstrate such to be the fact before I take my seat.

Now, take food products. Does this bill embrace food products? Is cotton a food product? How does cotton get into a food-product bill? Where are butter and cheese and cattle and all the thousand other food products which are left out of this bill, which is called a food-product bill? You have in the bill things which are not food products, and you have not food products in, and yet it is said a great clamor comes up for this bill from the American people, because it is a bill to protect food products. If we are going to protect food products let us protect them; do not let us discriminate.

Mr. WASHBURN. Cotton is an agricultural product.

Mr. WHITE. I am coming to agriculture. The trouble is that this bill is so incongruous that I defy any Senator to take a single heading and classify under it the arbitrary selection of subjects which are brought within its provisions. I shall not forget agriculture. Here are agricultural products. Is butter in the bill? Is cheese in the bill? Is hemp in the bill? Are cattle in the bill? Are horses in the bill? Are mules in the bill? Are sheep in the bill? Is wool in the bill? Only, Mr. President, in so far as the bill pulls the wool over our eyes on the agricultural question.

Mr. WASHBURN. If the Senator will allow me, they are not in the bill for the reason that they are not bet on in the gambling resorts of this country. That is the reason they are not in the bill.

Mr. WHITE. I am coming to that. That is a confession of the discrimination of the favoritism by which the items have been arbitrarily selected. If the gambling spirit is what the Senator thinks, then this bill is going to close the exchanges to these products and open the bucket shops and gambling saloons all over the country to the products which he discriminates against. Then we must write in the title of this bill 'An act passed by the Congress of the United States to stimulate gambling in the agricultural products, and to encourage the opening of bucket shops by forbidding gambling in a few products and licensing as to all the others.'

But, Mr. President, what a proposition—that these things are picked out for anathema and denunciation because they are dealt in on boards of trade. God of mercy, in this age of the world are we to shut our eyes to every teaching of the English-speaking race? Are we to confess that we are more ignorant than were our forefathers 200 years ago?

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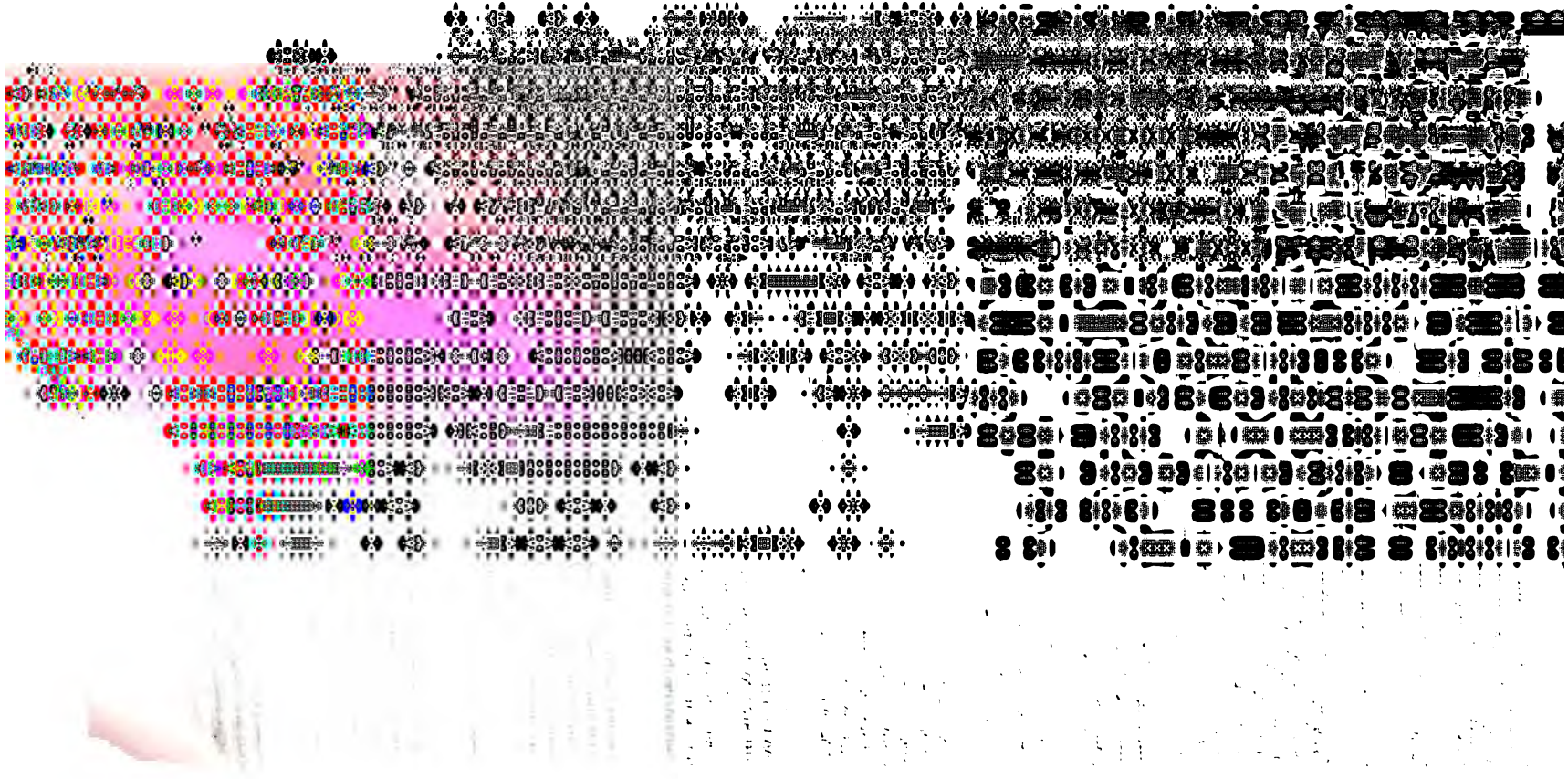

Why, sir, what is the history of English commerce? What has enabled it to carry on its wings the light of civilization and religion and truth all over this world? What has done it, sir, but the organized energies of the great commercial bodies of the world, speaking through their chambers of commerce and their boards of trade? The very structure of our Government, almost the very fiber of this Government, was evolved in that country which preserved its liberties by the efforts of its great bodies of merchants assembled together for the purpose of trading. The very essense of trade is liberty itself; intercourse engenders the immortal spirit of liberty from the very fact that men gather together in the interest of commerce, which needs the wings of liberty and of peace to spread itself in enlightening and improving the world.

Let us see what the argument of the Senator would lead us to. What are these boards of trade? They are merely the aggregation of merchants who meet in a room to collect the information necessary to enable every man to trade on an equal footing. The telegraph, the reports of all kinds, the bulletin board, everything open; so, if I may be pardoned in the use of such a slang expression, there is a fair and square deal, and the man who buys and the man who sells, all possessing the information which is garnered all over the whole world, deal on an equal footing.

Mr. President, boards of trade are true evolutions of that doctrine of equality which has dominated the world, the equality and liberty of man. The poor man with small capital who goes into the great chambers of commerce, and the boards of trade with all the information exposed to his view, needs to protect himself from being gouged and destroyed only the light of the reason which God has given him. It is putting him on an equality with the rich. The purpose of this bill, then, is to strike down all the trading which can be done at an equal advantage, and to stimulate the trading where the small man will be at the mercy of the big man. Its purpose, then, is to allow trading where all the protections which modern society and modern commerce have evolved will be destroyed.

[At this point the honorable Senator yielded the floor.]

FRIDAY, JULY 22, 1892.

Mr. WHITE. Mr. President, when I surrendered the floor yesterday I was discussing what I conceive to be the confusion and the discrimination in the terms of the bill as to the provisions creating or defining the acts which the bill prohibits, or virtually prohibits, so as to show that the objects embraced in those definitions were defined by no rule, followed no coherent or consistent line of thought, conflicted one with the other, and were utterly and entirely irreconcilable. If we view the bill as classifying the products as agricultural products, then a vast number of agricultural products were omitted. If we view the bill as a classification of food products, it omits many things which are food products.

In answer to that argument the Senator from Minnesota [Mr. Washburn] yesterday said that the line of thought along which the bill proceeded was to reach the things which were traded in on boards of trade. The argument which was had yesterday I think led up directly to the conclusion that if that were the line of thought which dominated the bill, then the necessary effect of the bill was to increase instead of decreasing gambling and speculation, because as this system of gambling and speculation has its origin in the inevitable tendency of the human character to take risks, particularly under the conditions of modern life, the exclusion of a few articles which were gambled in to-day, leaving the vast sum of human products out of the inhibitions of the bill, would simply deflect the channel of gambling from the bed into which it now flows into a wider and deeper and stronger and a more pernicious stream of gambling.

I called attention, however, I think, yesterday to the fact that there was in my judgment a philosophically fundamental mistake in attempting to forbid speculative tendencies on boards of trade where that tendency could be executed with reasonable honesty and with reasonable precautions, and encourage and foster speculation where those restraints and restrictions and precautions did not exist.

Last night my attention was called to a discussion of this question in a work on political economy, which seems to be so opposite, so entirely to embrace the subject matter of this discussion, that I will send to the desk and have read the paragraph to which I wish to call attention. Mr. Clerk, please begin at the top of page 100 and read to the mark at the end of page 101.

Mr. STEWART. What is the work?

Mr. WHITE. Denslow on the Principles of Economic Philosophy.

Mr. STEWART. That is first rate. He is the ablest man who has written on that subject.

The Chief Clerk read as follows:

"It is a singular fact that markets have been the subject of popular prejudice and moral objection, almost in proportion to the perfection with which they economize

time, transportation, and effort, and equalize prices. The proper meaning of a market is not merely the place set apart in which buyers and sellers may meet with their goods, but all that territory, with its groups of buyers and sellers, consumers and producers, of which the residents are so brought into union and contact with each other by the mutual intelligence which arises through reciprocal commerce, that one price is arrived at by all with facility and promptitude.

"A market rises into its highest efficiency and value when it concentrates into one focus so large a portion of the buyers and sellers of a certain commodity as to become in conjunction with one or two other markets of the same kind, an authoritative standard of prices of the articles in which it deals, for all buyers and sellers through the world. By aid of the quick intelligence which the telegraph supplies and of the swift transportation which steam affords the whole world is thus converted into one market having one price, subject only to cost of transportation of the product between the point for which the price is quoted and all other points. Such markets are the Bourse of Paris for stocks and securities, the London Stock Exchange as well as the London Produce Exchange, the Liverpool and New York Cotton Exchanges, the New York Stock Exchange, Produce Exchange, and Real Estate Exchange, and formerly the Gold Room and the boards of trade (grain and provision exchange) of Chicago, in conjunction with those of the other western cities and that of Liverpool.

"Concerning these exchanges, Prof. Jevons says: 'The theoretical conception of a perfect market is more or less completely carried out in practice. It is the work of brokers in any extensive market to organize exchanges so that every purchase shall be made with the most thorough acquaintance with the conditions of the trade. Each broker strives to gain the best knowledge of the conditions of the supply and demand and the earliest intimation of any change. He is in communication with as many other traders as possible in order to have the widest range of information and the greatest chance of making suitable exchanges. It is only thus that a definite market price can be ascertained at every moment, and varied according to the frequent news capable of affecting buyers and sellers. By the mediation of a body of brokers a complete consensus is established and the stock of every seller or the demand of every buyer brought into the market. It is of the very essence of trade to have wide and constant information. A market, then, is theoretically perfect only when all traders have perfect knowledge of the conditions of supply and demand and the consequent ratio of exchange, and in such a market as we shall now see there can only be one ratio of exchange of one uniform commodity at any moment."

Mr. WHITE. Mr. President, the object of the bill, the very classification defined in the bill, is to exclude the products which are dealt in on this kind of a market and leave outside of the operations of the bill the products which are dealt in in another or unrecognized market. I send up to the desk and ask to have read the description of the other market to which the things not brought into the bill are relegated. I have marked the passage on page 109 of the same work.

The Chief Clerk read as follows:

"In the sale of carriages, pianos, jewelry, clothing, and other things which do not admit of such an authoritative contest over the price, there is great inequality in the prices at which two persons in the same city on the same day may buy two things of the same kind and of equal value. Hence there is great cheating in such trading. One may pay $200 for a watch which another buys for $100. There is no standard. In all these grades of goods long credits must be given, as the dealers must hold the goods until they reach consumers.

"But in articles dealt in by produce exchanges the price is advanced to the producer, and his crop can always be sold if he desires even before it is harvested. Hence the authoritative manufacture of prices confers somewhat the same benefit on a community as is conferred by an authoritative system of law, religion, manners, and ethics. It enables every man to know each moment how he stands relatively to the results of his past exertions, what they have cost, and how much he can get for them."

Mr. WHITE. Such, Mr. President, is the description of the market destroyed by the provisions of this bill. The agricultural products which have the safe and the sound and the enlightened and the progressive market as defined in this book, and, as resulting from the nature of things, have the hands of palsy put upon them by this proposed statute, and dealers are relegated to the character of market as defined so clearly by this author, where cheating and lying necessarily from the nature of things obtain.

I think that is a complete exposure therefore of the discrimination which is found in the bill as to the nature of the products embraced within it. But there is an answer yet more conclusive as to this discrimination. If the purpose and object of the bill is to strike with palsy transactions on boards of exchange, on boards of trade, why is it that the terms of the bill leave out all that vast body of property running up into the hundreds or thousands of millions, the bonds and stocks and values of every kind in this country, which form the great sum of the speculation of the country? If the

vice of gambling and the tendency of gambling is what is reached by the bill on boards of trade or exchange, why is it that the bill leaves the New York Stock Exchange and all the other great stock exchanges in this country open, where values exceeding in value the things included in this bill are dealt in, by the very methods and by the very procedures which the bill condemns? By what rule will we here, legislating for a whole country, say that we will make our legislation partial; that we will select one class and leave out other and greater classes by applying the rule which the distinguished Senator has announced?

Mr. President, this discrimination as to the things which are made the subject matter of the legislation in the bill is, in my judgment, far the least discrimination which the bill contains. The discrimination which hitherto I have demonstrated is as to the object to which it is applied. There is a broader, deeper discrimination in the bill as to classes in this country. I find in the testimony a statement by the president of the Milwaukee Chamber of Commerce as to the class distinction which is carried in this bill, which strikes me with so much force that I send it to the desk to be read.

Mr. GEORGE. What is the name of the witness?

The Chief Clerk read as follows:

Mr. Bacon, of the Milwaukee Chamber of Commerce:

"Now, I wish to call attention to the fact that this legislation, if it is to have the effect which it is expected to have, and which is undoubtedly the object of the promoters of this measure, is legislation in favor of a class—in favor of the producing class; and if it produces the effect desired, it is legislation against the interest of the consuming class. It stands to reason that whatever enhancement of value may inure to the farmer falls necessarily upon the consumer.

"The census of 1880 (the figures for 1890 are not yet prepared) shows that the number of persons engaged in all gainful occupations of the country were 17,392,000, in round numbers; of those engaged in agriculture there were 7,670,000, constituting 44 per cent of the whole. Those engaged, as it is termed, in gainful occupations comprising the mercantile and manufacturing and mining interests of the country; those engaged in agriculture comprising all who are engaged in any branch of agriculture, not only in the raising of grain and live stock, but florists, tree men, and every branch of agricultural service: showing that 44 per cent of the population is directly interested in the production of agricultural products of all kinds. For the benefit of that 44 per cent the other 56 per cent of the population, if the objects of the bill be accomplished, will be taxed; or, to speak more properly, they are to be deprived of the benefit resulting from the operations of the natural and established laws of trade in their favor in order that 44 per cent of the population may receive a benefit. Now, the injustice of that is apparent on its face.

"But I wish to go a little further on that point. Of those engaged in agricultural pursuits, the number so engaged in the 10 cotton States is 2,837,000, which, deducted from the whole number engaged in agriculture, leaves 4,833,000 presumably engaged in the production of cereal and meat products, which represents a percentage of 28 of the aggregate. Instead of those who are raising cereal products, who are supposed to be benefited by this bill, being 44 per cent of the whole, it would be only 28 per cent of the whole. Those who are engaged in raising cotton are, of course, consumers of cereal products and of meats which are raised in the North, and they become sufferers in consequence of the enhanced values that are expected to result from the operation of this bill. I believe these expectations to be false, and that they will not be realized. But it is the purpose of the promoters of the bill to produce this result for the benefit of those engaged in raising cereal and meat products of the country, and if it does produce that effect it benefits 28 per cent of the people at the expense of 72 per cent of the people. Now, I submit whether this is fair legislation, to say nothing of the wisdom of it."

Mr. WHITE. Now I send up to be read the opinion of Mr. Pillsbury as to the effect of this legislation if the purpose of its authors is successful. I desire to say before the Chief Clerk reads the excerpt that in the course of my remarks to-day I shall have occasion to refer to Mr. Pillsbury as an authority on the subject matter under discussion. At the very outset I wish to distinctly announce the fact that in referring to Mr. Pillsbury I intend by no way, directly or indirectly, in the remotest possible manner to refer to the distinguished Senator from Minnesota because of the fact that he has a business connection with Mr. Pillsbury.

There is no Senator on this floor for whom I have a higher respect and a more profound admiration than the Senator from Minnesota; and if I make these references in the discharge of my duty I wish to enter at once a disclaimer of any possible imputation that in any way in the world I wish to indicate that I think the distinguished Senator is impelled in his course on this bill by anything but the highest sense of public duty to his country.

The Chief Clerk read as follows:

"Senator PLATT. Then comes the other question which I was going to ask: Suppose this bill can be passed; do you think it would have any effect on the average price of wheat for the year?

"Mr. PILLSBURY. I think decidedly it would.

"Senator PLATT. Would make it higher?

"Mr. PILLSBURY. Yes, sir.

"Senator PLATT. And then the people who eat the wheat would have to give more for it?

"Mr. PILLSBURY. They would.

"Senator PLATT. Do you think that is a good thing?

"Mr. PILLSBURY. Yes, sir.

"Senator PLATT. To make every man who eats your flour pay more for it, in consequence of legislation?

"Mr. PILLSBURY. Yes, sir; so long as this country is an exporter of wheat and raises one-third more wheat than it consumes. If we can keep the price of breadstuffs on a higher level, as it is well known that the little farmers have not had living prices for their wheat, I think it would be a good thing for the country, taken as a whole, and I think that Connecticut would be more prosperous if the people of that State had to pay a dollar or two more for their flour; I think that the general buying capacity of the Northwest and wheat-growing States would be that much increased. That is my doctrine of political economy."

Mr. WHITE. Now, Mr. President, let us admit that the theory of the proponents of the bill is true, these consequences will follow. Are they just? Is there a Senator who admits that we should legislate in favor of one class and against the other?

Mr. WASHBURN. Will the Senator allow me just a moment?

Mr. WHITE. Certainly.

Mr. WASHBURN. Does not the Senator think it is fair both to the producer and to the consumer to allow the law of trade and supply? My idea is that there should be no artificial change whereby prices are made either one way or the other from the legitimate law of supply and demand.

Mr. WHITE. I, of course, anticipated and was approaching the objection which the Senator makes. But it seems to me there is a confusion of thought in the Senator's mind; I say it with great respect. Is not the right to make a contract for future delivery as much a right as the right to make any other contract? Has not the Supreme Court of the United States recognized that a future contract was a valid contract? Is not the sum of human liberty the right of a citizen to deal as he pleases and with such freedom as belongs to everyone?

Of course, just legislation ought to balance every man's right equally and leave every man his freedom. But when it is proposed to restrain a man of his natural liberty to make a contract, which right inheres in him, with the object and purpose of bettering one class to the detriment of the other, I submit it is vicious and wrong in legislation.

The only answer I find in the testimony is that there is such a solidarity between all classes of a community that if you benefit one the reflex resultant of this benefiting of one will so help the one who is injured as to cure the wound which you will have inflicted by the statute. That is the argument. I shall not attempt to answer it now. Suffice to say that this is the argument put all through this testimony by those who urge this bill. I shall have occasion, I think, in a few moments to show that while they put this argument for the purpose of defending this part of the bill, when they reach another part of the bill which is subject to attack, they deny the solidarity which they affirm here for the purpose of defending this provision.

Now, let us see if there is not another discrimination in the bill, a discrimination as to persons. The second section of the bill, after defining futures and options, says what? It excepts certain persons from every provision of the bill, and who are those persons? The Government of the United States and every town and municipality. Now, what is the theory of this bill? The theory of the bill is that these dealings are wrong, that they ought to be forbidden. It looks to me as very bad public policy to denounce a thing by a prohibitory tax and then immediately declare that the Government may do it. That looks to me indefensible. What answer does the distinguished Senator make to this objection? He says, and I quote from his speech:

"The United States or any State, Territory, county, or municipality do not come within the provisions of this section, for the United States, or any State, Territory, or municipality do not make their purchases of supplies of boards of trade, but they are usually made by receiving bids or proposals from parties who have the articles desired to be purchased."

The Government is excepted from the operation of the bill because the Government deals with people who have the objects which they propose to offer. Is not that entirely inaccurate? Does not everybody know that nearly all the supplies which are furnished this Government are tendered to the Government by people who have not got them and who have to acquire them? The very coal which is to heat this building at the next session of Congress has been contracted for, I am told, by one who is a coal dealer, and he has a contract for future delivery with a miner who is to mine it.

Therefore this exception is all wrong. It is a plain discrimination. The reason given for it is wrong. The reason given for it strikes me as a very confused reason. If the terms of the bill do not reach the Government, then why is the Government excepted? The very making of the exception in the bill under every elementary rule of construction is a negative pregnant with the affirmative that if the exception were not made the Government would be included; and yet the Government is excepted on the ground that the bill does not cover the Government, when if that be accurate there was no necessity for the governmental exception whatever.

Let me show by a curious coincidence how remarkable this exception is. One of the subject matters included in the bill, and, as I hope to demonstrate later, will be ruined by it, is cotton. Where did dealing in futures in cotton arise? Such trades in cotton futures arose in dealing with the Government. This is shown by an examination of a work which is the most authoritative work on cotton, Mr. Donnell's work, the accepted authority with everybody in the cotton trade. Mr. Donnell was a broker of great merit and high character, who, having accumulated a competency, has retired from business and devoted himself to the literature of this subject. In discussing the question of the origin of the future delivery of cotton he says:

"Contracts for future delivery.—This business commenced during our Civil War."

Speaking of cotton:

"Some of our manufacturers entered into large contracts with the Government, and covered themselves by purchasing the raw material for delivery at some future time. The price, within certain wide limits, was then of much less importance than the certainty of getting the cotton when needed."—(E. J. Donnell's History of Cotton, p. 614.)

Now, the Government is excepted from the operation of this bill on the ground that the bill does not apply to the Government; therefore showing that the exception ought not to be here. It is excepted on the further ground that people who sell to the Government have the property, when such is not the fact. Here the development comes that the very origin of dealing in futures in cotton came from contracts with the Government made during the Civil War. It seems to me this answer is complete——

Mr. WASHBURN. Was it made on a board of exchange?

Mr. WHITE. I have already answered the Senator's argument about the board of exchange. I have already demonstrated, I think, that trade can be a great deal more safely made on a board of exchange, where all the dealers, all the sellers, and all the buyers are congregated, where there is an ascertained and established price, than it can be made where such a thing does not exist.

Let us take the distinction as to persons. The farmer has been left out from the prohibition of the bill. I think hereafter, when I come to another part of the bill, I can show that this is an illusory jack-o'-lantern exception left in this bill to lure the farmer on to his destruction. But suppose I should not demonstrate that. By what theory are we to say here is a class of contracts which we strike with moral and legal inhibition, and then immediately take out of the reach of the inhibition a certain favored class of persons?

Mr. President, the germ of more harm to the farming class lies within that exception than words can tell. They, above all other people in the race for honest government, require no discrimination. They, above all other people, must guard themselves against the arbitrary exercise of governmental power for the purpose of favoring classes. In this proposed statute the illusory concession which is made to them is sure to become the fruitful source of untold injuries to come hereafter.

But it may be said the farmer makes the crop; the farmer intends to get a crop. This bill only allows him to sell the crop which he has in process of fruition or which he intends to make, and it uses that expression. Does that differentiate the proposition? Is the farmer's intention to make his crop any more serious than may be the intention of the man who contracts to deliver a thousand bushels of wheat on a particular day? Is the realization of his intention any more possible? Is the certainty that the intention which is in his mind is going to take life and being by the production of that crop any more certain than would be the ability of a man of fortune, with the money in bank, to buy the product that he is going to buy in the fulfillment of a

contract? Is it not absolutely certain, on the other hand, that the risk of not being able to fulfill, whatever may be the honesty of the intention, is greater in the farmer's case than it is in the other?

There is the exception written into this bill of retail dealers, and I suppose other exceptions. I think that makes this an exceptional bill, so entirely exceptional that I think it ought to be beaten.

But let me call attention to another thing. All through this testimony—and I want to emphasize this fact—all through this testimony there is the admission that it is absolutely essential for the successful commercial sale of the things which are stated in the bill that trade for future delivery in them should not be hampered. Even the persons who most favor this legislation in their testimony say we would be against this legislation if it hampered legitimate trade. The distinguished Senator from Minnesota in his speech on the bill said:

"I desire right here to distinctly state that it is not the purpose of this bill—neither does it—in any manner whatever to interfere with the bargain, purchase, or sale of any product or property where the party making such sale is the owner thereof or where he has a contract for the ownership or right of possession of the same.

"It neither seeks nor does it in any way interfere with the freedom of commerce, but leaves legitimate trade without restriction or hindrance."

These words were delivered in a discussion of this bill with the twelfth section in it, with the twelfth section in it which imposed a license of $2 upon all trade in actual cotton, even the trading taken out of the operation of the definitions in the bill. It is said of this bill to-day, which, even after the motion to strike out the twelfth section has carried, leaves the thirteenth section in it—that section provides that wherever an internal-revenue collector has reason to believe or to presume that any man is doing the things forbidden by the act, although he be making the future sales which are allowed, shall have a right to call for and inspect his books and business.

The freedom from unreasonable search arose with Magna Charta; have we come now to this state of things in the American Senate that a contract which all the courts have declared to be lawful, which the bill admits to be lawful, is submitteed to the right of search upon the mere suspicion of an internal-revenue officer? Yet the declaration is made that there is no intention in this bill to interfere with the freedom of trade. The earnestness of purpose and the zeal of the distinguished Senator, the evil which he sees and wishes to cure for a great public purpose, have so dominated his mind and clouded his vision that there lies a fog between his mind and the great and elementary principles of American Government; he sees freedom where I see slavery and oppression.

Mr. President, let me pass away from these things. I wish to discuss the essential features of the bill now. I have discussed it hitherto on the theory that it was unconstitutional. I have taken up its contrarieties, and its confusions, and its contradictions, and its stipulations against human liberty and elementary rights. I propose now to turn my back upon all that. I propose to urge the defeat of this bill, supposing that this was a body with no restriction on it whatever, that this Senate was the most untrammeled and absolute legislative body in the world, that the Constitution was a myth, and all the restraints of English-speaking government a mere chimera which we had forgotten and which we were never to recall. I say, looking at this bill from this point, it is pernicious and vicious; that it will strike a blow at the commerce of this country the length and breadth and width and depth of which no human mind can compass until its results of disaster have worked out. Let me see if that is true.

There is an elementary principle of legislation that in matters of commerce the wisest, safest, best, the most enlightened process is to accept the judgment of the men who by long commercial training and long commercial experience have a knowledge of the commercial subject matter in hand. That is an elementary rule. There is not a court, I think, in this land sitting to-day with a jury impaneled between man and man—I do not know how it is in the other States; I know it is so in mine, and I know it is laid down in elementary books on evidence—that if a complex commercial question were presented to that jury a commercial expert would not be allowed to testify. All the great reforms in our system, the protection of innocent holders, the rights accorded to third parties, all our system of insurance, all our system of maritime law, are not originally the creatures of statute. They were all brought forth from a mighty evolution, which treated the aggregate sense of the commercial world on a commercial question as the aggregate common sense of mankind.

Now, what is the fact about this bill? There is a persistent, consistent, a universal declaration of all the commercial bodies in this country against this bill, and specifically pointing out the evils which will result from it.

Mr. President, I send to the desk and desire to have read the protest of the Chamber of Commerce of the State of New York.

The VICE PRESIDENT. The protest will be read.

The Secretary read as follows:

"THE CHAMBER OF COMMERCE OF THE STATE OF NEW YORK.

"Meeting of Thursday, March 3, 1892.

"The committee on internal trade and improvements, to whose attention was brought a request from the New York Cotton Exchange to join in a protest against three bills which have been recently presented to Congress, viz: House bill No. 2699, by Mr. Hatch, of Missouri; Senate bill No. 685, by Mr. Washburn; and Senate bill No. 1268, by Mr. Peffer, reported as follows through Chairman Louis Windmuller:

"It appears to have been the mistaken notions of the farmers that they could benefit producers as well as consumers if they throw obstacles in the way of dealers, to sell what they do not own and buy what they do not need. They evidently believe that such sales and purchases tend unnaturally to depress or advance values. Thev seem to forget that these so-called speculators must deliver what they have sold and pay for what they bought. The price of the cotton is low, not because it was sold short, but because the production is large and consumption is small.

"When a manufacturer is anxious to secure raw material for future orders, which are offered to him at a time when cotton on the spot commands a higher price than he can pay, the middleman, who anticipates a reduction of values, comes forward and agrees to furnish it at a figure which enables the mill owner to close contracts for the fabrics demanded by his customers. Breadstuffs are high, not because they were bought for a rise, but because they are needed by nations whose crops have been a failure. An exporter receives an order to forward at certain limits, when navigation opens, to a port on the Baltic Sea, a cargo of corn. It is unobtainable and not wanted for immediate delivery. The dealer in futures steps in and agrees to furnish to the exporter what he wants at the time when he needs it.

"It is indisputable that such dealers have become useful factors in the general development of commerce ever since it has assumed large proportions. They take risks by which future wants are provided in our home market as well as in foreign countries. When they overstep the limits of prudence they are the sufferers, rather than producers and consumers. A combination of such men is not powerful enough to control prices of the great staples of this country beyond their natural level so as to cause serious injury.

"But even if the public should occasionally suffer because the markets have been forestalled, your committee does not believe that the course provided by these bills furnishes a proper remedy for the evil. Past experience shows that legislation will only do harm when it tries to intefrere with the natural laws of trade.

"Your committee therefore recommend that this chamber join the Cotton Exchange and the other commercial bodies throughout the country in a protest against the passage of these bills, as they would injure the best interests of the community.

"On motion the following resolutions were unanimously adopted:

"Whereas there has been introduced in the Senate of the United States by Senator Washburn, of Minnesota, bills known as S. 685 and S. 1757, and in the House of Representatives by Representative Hatch of Missouri, a bill known as H. R. 2699, levying a tax on purchases and sales for future delivery of cotton and all hog products of 5 cents per pound, and on wheat, corn, oats, barley, and other grain of 20 cents per bushel; and

"Whereas should any one of these be enacted into law the result would be the suppression of the trading in this country in what is known as contracts for future delivery of the articles mentioned, to the great detriment of all persons engaged in their growing, handling, or consuming:

"*Resolved*, That the Chamber of Commerce of the State of New York hereby enters its solemn protest against the enactment into law of any of the before-mentioned bills now before Congress or of any other bill or bills of similar purport.

"*Resolved*, That this Chamber hereby expresses its condemnation of any attempt on the part of Congress to enact laws for the supposed benefit of one portion of the community as against another.

"*Resolved*, That whatever the asserted evils may be incident to this method of doing business, it affords a measure of security and protection to legitimate traders as well as to the producers of the articles named that is not to be disregarded.

"*Resolved*, That it is the opinion of this chamber that no good can result to the agricultural interest of the country by any legislation that curtails and restricts free and untrammeled trading.

"*Resolved*, That the great law of supply and demand regulates values of everything, and that no particular system of trading can ever more than temporarily, if at all, obstruct its full operation; that this inexorable law always has and always will operate whether a man sells what he does not possess in the hope of securing it at a later period at a less price or not, and that any effort having in view the abolition of 'short selling,' if enacted into law, would not only fail to secure the imaginary benefits sought, but would be productive of incalculable injury to legitimate business interests while this fact is in process of being determined.

"*Resolved*, That a copy of this protest be forwarded to each Senator and Representative in Congress.

"GEO. WILSON, *Secretary*."

Mr. WHITE. Mr. President, I sent up and had read first the memorial of this great body, because by its constitution and organization it is not a trade body. It is not the Chamber of Commerce of New York City. It is the Chamber of Commerce of the State of New York, perhaps one of the greatest bodies of commercial advisers in the commercial world to-day, composed of men many of whom are removed from practical business, men of large fortune, dealing in vast sums, men of great ability and thoroughly versed in the movements of commerce, whose opinion and judgment expressed on any commercial question anywhere where commerce is carried on would have great weight and great responsibility.

I now send up to the desk, Mr. President, and ask to have read the memorials of the banks and bankers of New York, the banks and bankers of Chicago, and the banks and bankers of the city of New Orleans.

The Secretary read as follows:

"NEW YORK BANKS AND BANKERS.

"NEW YORK, *February 4, 1892*.

"*To the honorable the House of Representatives of the United States:*

"The undersigned, engaged in the banking business in the city of New York, believe that if House of Representatives bill No. 2699, now before your honorable body, taxing purchases and sales of cotton, grain, and hog products for future delivery, becomes a law it will do great damage to the business in those articles and work a serious injury to producers.

"That, as bankers, we consider our risk in advancing on such property very much less than was the case prior to the inauguration of the present method of doing business.

"We therefore earnestly protest against the passage of this measure and trust that no legislation in this direction may be approved by your honorable body.

"Jas. T. Woodward, president Hanover National Bank; J. Edward Simmons, president Fourth National Bank; Warner Van Norden, president National Bank of North America; Arthur B. Graves, president St. Nicholas Bank; James Stillman, president National City Bank; A. E. Orr, vice president Mechanics' National Bank; Forest H. Parker, president New York Produce Exchange; Charles M. Fry, president Bank of New York National Banking Association; R. M. Gallaway, president Merchants' National Bank; H. Rocholl, president German American Bank; W. W. Flannagan, president Southern National Bank, W. A. Nash, president Corn Exchange Bank; J. H. Parker, president United States National Bank; Jno. B. Woodward, president Third National Bank; W. W. Sherman, president National Bank of Commerce; W. H. Perkins, president Bank of America; R. L. Edwards, president Bank of the State of New York; E. H. Perkins, jr., president Importers' and Traders' National Bank; H. W. Cannon, president Chase National Bank; J. W. Cilley, president Ninth National Bank; D. C. Hays, president Manhattan Co.; George Bliss, of Morton, Bliss & Co., bankers; Ladenburg, Thalmann & Co., bankers; Knauth, Nachod & Kuhne, bankers; Lazard Freres, bankers; Baring, Magoun & Co., bankers; Brown Bros. & Co., bankers; J. & W. Seligman & Co., bankers; Heldelbach, Ickelheimer & Co., bankers; Kuhn, Loeb & Co., bankers; Blake Brothers & Co., bankers."

The VICE PRESIDENT. Does the Senator desire to have the names attached to these memorials read?

Mr. WHITE. No; Mr. President; I do not.

The Secretary continued to read as follows:

"CHICAGO BANKS AND BANKERS.

"CHICAGO, ILL., *February 4, 1892.*

"*To the Congress of the United States:*

"The undersigned hereby respectfully and urgently protest against the enactment of Senate bill 1757, 'defining options and futures,' and known as the Washburn bill.

"We believe that the passage of any such bill would be not only seriously detrimental to the agriculturist, but would be of incalculable injury to the manifold industries of the entire country, inasmuch as these industries depend for their profitable prosecution upon that system of buying and selling for future delivery which the Washburn bill would destroy.

"We believe the dealings in futures in grain and hog product, as regulated by the board of trade of the city of Chicago and similar exchanges, based on the actual delivery of the commodity traded in, are the highest development, after years of experience and labor, of the best system of handling the enormous crops of this country to the most profitable advantage of the producer.

"This system affords an open market on which the world's competition can meet in establishing values without the limitations and restrictions which an exclusively consumptive demand would impose.

"Its daily declaration of values is an analysis of the world's product and requirement, and reduces to the minimum the risk of those engaged in handling the crops, thereby securing to the producer the highest bids at all times.

"By this system our merchants yearly advance millions of money for the cribbing and warehousing of grain throughout the country, which without the protection of the present market would not be done.

"To destroy this system, as contemplated by the Washington bill, would reduce the circulation of money when most needed to move the crops, would greatly restrict credits, owing to uncertainty of values. practically drive the small grain merchants from the field, and concentrate the business of handling the products herein referred to in the hands of wealthy corporations and syndicates of warehousemen and millers.

"Corn Exchange Bank, by Ernest A. Hamill, vice president; Illinois State Savings Bank, by J. J. Mitchell, president; Bank of Montreal, Chicago, Ill., by William Monro, manager; Union National Bank, by August Blum, cashier; the Northwestern National Bank, of Chicago, by E. Buckingham, president; the Metropolitan National Bank, by E. J. Keith, president; the Atlas National Bank, by C. B. Farwell, vice president; Merchants' National Bank, by C. J. Blair, president; the Merchants' Loan & Trust Co., by J. W. Doane, president; the Commercial National Bank, of Chicago, by H. F. Eames, president; the American Trust & Savings Bank, by G. B. Shaw, president; Fort Dearborn National Bank, by John A. King, president; American Exchange National Bank, by John B. Kirk, president; the Union Trust Co., of Chicago, by S. W. Rawson, president; the National Bank of Illinois, by George Schneider, president; Hibernian Banking Association, by J. V. Clark, president; First National Bank, of Chicago, by R. J. Street, cashier; Continental National Bank, by John C. Black, president; the Columbia National Bank, by Z. Dwiggins, cashier; the Globe National Bank, by D. A. Moulton, cashier; Royal Trust Co., by J. B. Wilbur, cashier; National Bank of the Republic, Chicago, Ill., by John A. Lynch, president; the Hide and Leather National Bank, Chicago, Ill., by Charles F. Grey, president; the Northern Trust Co., by Byron L. Smith, president; National Bank of America, by Morton B. Hull, vice president; Bank of Commerce, by H. Felsenthal, president; Commercial Loan & Trust Co., by James B. Hobbs, president; Chemical National Bank, Chicago, Ill., by G. E. Hopkins, cashier; Franklin MacVeagh; Marshall Field; Sprague, Warner & Co.; Lord, Owen & Co.; Markley, Alling & Co.; Pitkin & Brooks; Ried, Murdock & Co.; W. M. Hoyt & Co.; Kelley, Maus & Co.; M. D. Wells & Co.; Selz, Schwab & Co.; Phelps, Dodge & Palmer; Butler Bros.; Carson, Pirie, Scott & Co.; James H. Walker & Co.; Hy. W. King & Co.; C. M. Henderson & Co.; Sweet, Dempster & Co.; Wells & Nellegar Co.; Hibbard, Spencer, Bartlett & Co.; McCormick Harvesting Machine Co.; Frazer & Chalmers; Warder, Bushnel & Glessner Co."

"NEW ORLEANS BANKS AND BANKERS.

"NEW ORLEANS, *December 30, 1891.*

"*To the honorable the House of Representatives and Senate of the United States of America, Washington, D. C.:*

"The undersigned, engaged in the banking business in the city of New Orleans, believe if Senate bill 685, 'the Washburn bill,' taxing purchase and sale of cotton, grain, and hog products, becomes a law, that it will do immense damage to the business in those articles, reduce stability in values, and work great injury; and that as bankers we consider our risk in advancing on such property very much less than was the case prior to the inauguration of the present mode of doing business. Therefore we most respectfully protest against the passage of the bill.

"N. B. Sligh, president, Southern National Bank; R. M. Walmsley, president, Louisiana National Bank; C. Kohn, president, Union National Bank; A. Baldwin, president, New Orleans National Bank; George R. Preston, president, Hibernia National Bank; G. W. Nott, president, Citizens' Bank of Louisiana; L. C. Fallon, president, Mutual National Bank; Chas. F. Hoffman, bankers and exchange; H. Maspero, president, Traders' Bank; James T. Hayden, president, Whitney National Bank; H. Gardes, president, American National Bank; W. P. Nicholls, president, Bank of Commerce; N. Landry, president, People's Bank of New Orleans; Pierre Lanaux, president, State National Bank; J. C. Morris, president, New Orleans Canal & Banking Co.; G. Ad. Blaffer, cashier, Germania Savings Bank; Jos. L. Bourdette; Fred. Peters, president, Metropolitan Bank; Gilbert H. Green; Germania National Bank; J. C. Denis, president; Moore, Hyams & Co.; Isidore Newman, sr.; Bertus & Durel."

Mr. WHITE. Mr. President, I send, in addition to these, a list of commercial bodies throughout the country protesting against the passage of this bill. Along with that list I send up the memorials themselves; and I request that the list be printed as a part of my remarks, and that the memorials also be printed as an appendix.

The VICE PRESIDENT. That order will be made if there be no objection. The Chair hears no objection. It is so ordered.

Mr. WHITE. I ask that the list be read.

The VICE PRESIDENT. The list will be read.

The Secretary read as follows:

"LIST OF EXCHANGES, BOARDS OF TRADE, MERCHANTS, MILLERS, ETC., PROTESTING AGAINST ANTIOPTION BILL.

"New Orleans Cotton Exchange.
"Savannah Cotton Exchange.
"Houston Cotton Exchange and Board of Trade.
"Mobile Cotton Exchange.
"Greenville Cotton Exchange.
"Memphis Cotton Exchange.
"Milwaukee Chamber of Commerce.
"Chicago Board of Trade.
"New York Produce Exchange.
"New Orleans Board of Trade (Ltd.).
"New Orleans Clearing House Association.
"Bankers, millers, and merchants of Toledo, Ohio.
"Baltimore Corn and Flour Exchange.
"Chicago merchants and manufacturers.
"Minneapolis Clearing House Association.
"Minneapolis Business Union.
"Minneapolis Chamber of Commerce."

Mr. WHITE. Now, Mr. President, in the face of this almost universal commercial opinion are we going to pass this bill? Will it be said, as was intimated on this floor, that perhaps some of the bankers may have objections to the bill because it would affect their deposits of margins on futures? Can that be said of this great body of bankers throughout this country?

Why, Mr. President, but a while ago when I put the question as to the discrimination against one of the large interests of the country by this bill, the only answer

made was that there was such a solidarity of interest that the benefits of one would be resultingly compensatory for the injury to the others. Solidarity of interest which is affirmed, as respects the discriminating clause of this bill, is now denied in the face of this great testimony of commercial men from one end of this country to the other, men who have been dealing in these methods of business and who know their utility to the commerce of the land.

Why, sir, there is hardly a cotton plant blooming in the Southern States to-day, there is not a leaf of a cotton plant smiling in the wind which does not trace its way back in some way by some connection, however remote, to the capital which is represented in these petitions. That capital will suffer as much as will the producer by the passage of this bill.

The railroads, all the great interests of the country, act and react one upon the other, and you can not strike down the producing element of this country without striking down these great interests. When you find all these enlightened interests, all these men and bodies who are inseparably connected with the interests of the country, uniting on a purely commercial question in unbroken opinion as to the commercial harm which is to come from a given commercial restriction, it seems to me it is trivial to the last degree to say that their interest is not the interest of the producer and that the producer can be stricken down without their feeling it.

These banks and bankers are the instrumentalities by which the producer makes and moves his crops. The great bank at New York loans its money to the bank elsewhere, who in turn loans it to a factor, who loans it to a planter. The factors in New Orleans loan money throughout the Mississippi Valley to their constituents to enable them to make their crops. The ability of one of these classes to pay the other depends largely upon the making of crops. The increased ability to pay depends upon what the crop will bring in the markets of the world.

And yet we are told now, as to all of these great interests, complex and involved, united as by the inevitable laws of nature itself, that these merchants do not belong to the producing class and have no right to a judgment on this great matter of commerce. That argument denies the only premise upon which the discrimination in the bill as to classes can possibly be justified.

But, Mr. President, we are not left to opinions in our own country. All over the world—in England, in Germany, in Austria, in France, in Holland, in India, in Egypt, everywhere—this system of forward-delivery sales, which is an evolution to meet the wants of modern trade, obtains and is practiced.

Yet, at this late day, in this great body, representing the greatest commercial people in the world, the most active, the most enlightened, the most fertile in resources, the most advanced, are we to be called upon to listen to the contention that all the bankers of the world, not only in this country but everywhere, the great business men of the world, all the exchanges of the world, without reference to nationality, are a mere body of degraded and prostituted gamblers? That is the inevitable outcome from the arguments which have been adduced on this floor; arguments, in my judgment, in the domain of reason, as flimsy and as wanting in logical foundation as it is possible for argumentation to be.

No, Mr. President, when we come to commercial questions and find the universal consensus of commercial mankind agreeing to one thing, all tending to one thing, all supporting an evolution which has come, which is here, and which must remain, I say against all this the opinion of any one man here or there or somewhere else should weigh as nothing. If we were dealing with a theory, if there were here a question of natural philospohy or of chemistry, perhaps one mind with one ray of light could shed over the whole universe a splendor which all the world had not discovered. But when we come to the practical things of life, things that were not born but were evolved from commerce, because commerce is not a birth but an evolution, the only safe rule is to listen to commercial opinions. Commerce is a creation of the aggregate practical common sense of mankind, and nothing ever obtains universally in commerce that has not been founded upon the rock of things practical.

It is a mistake to say, as has been intimated here, that these bodies whose petitions I have presented are bodies not of producers. Why, the only body I am familiar with, Mr. President, is the Cotton Exchange of New Orleans. That exchange has a great many producers, agents, or factors of planters as members. It has the buyer and the seller, the planter, and the factor who represents a vast volume of planters. If you were to-day to put an exhaust pump on the cotton fields of the southern country and draw out of those fields the money which has gone from these commercial bodies and whose only hope of return is in the fruition and wise marketing of those crops, you would cause no greater destruction to sweep over those fertile and laughing fields than will, I am afraid, result from the passage of this bill.

Now, Mr. President, having laid down these general principles, I propose to look at the origin of this system of future delivery and see whence it came.

Where did it take its birth? If we look back 40 years and picture the conditions of things at that time, and then look at the condition of things to-day, sum up the whole mass of human acquisition existing now and compare it with the human acquisitions of those days, we shall have a résumé of the growth of this future system.

There is not a spark of electricity encircling the world to-day like a flash of lightning which does not carry in its womb the germ of an undeveloped future contract. There is not a railroad train dashing over the land that has not written upon its locomotive headlight the necessity of future contracts. There is not a steamship plowing the vast deep with all the rapidity of ocean transit which now obtains that does not at every puff of her mighty engine repeat and repeat again to the commerce of the whole civilized world the necessity of future contracts.

I found, Mr. President, this morning, in a paper recently published in New York on the death of an illustrious man, an estimate of the consequences which had come from the electric cable joining Europe and America. The writer of that article, with much lucidity, called attention to the fact that it was the intermingling and intercommunication between man and man which had generated this closeness of union in commercial transactions out of which had developed this system which dominates the commercial world to-day and which lies at the foundation of every human business. There is not a civilized human being who does not bear living evidence not only of the necessity but the universality of this practice.

The very material from which the coat I wear was woven was probably bought on future delivery. The spinner who spun it, in order to save himself from loss, had sold it for future delivery in order to be guaranteed a price which would be remunerative. There is not a thing to-day which enters into the use or consumption of mankind which, under this modern and universal system of future delivery, is not covered by contract in one way or the other to save loss which would otherwise result.

The inevitable tendency of modern business is to draw people together, to make intercommunication of man with man greater. The inevitable result is equality. The future business is the necessary result of the struggle between men for equality. Before the future business came into being the large capitalists, the mighty millionaires, of whom the Senator from Minnesota speaks, had to furnish the money with which to carry on commerce. This future system, as I have said, is the result of the struggle for equality. Before it came large fortunes were required to carry and hold the product and submit to the great expense and risk which resulted from the holding them until taken by consumers, whereas now the ingenuity and quickness of the minds of men, responding to the wants of modern trade, have engendered this system of future delivery, which has put every man upon a footing of equality with every other man, enabling one without large capital to be the equal relatively of the man with great capital.

I can recall that in my boyhood, in the city of New Orleans, the great commercial houses, the great English houses with large sums of money, the agents of the Brown Bros. and the agents of other great bankers, the Baring Bros., did business there. When exchange was to be drawn to pay for cotton, the Baring Bros. or Brown Bros. bought it. If cotton exchange was taken to a bank, there was danger of it being refused for fear the price of cotton might go down. The banker would say, 'If I take this bill except upon the credit of the drawer, a decline in the price of cotton in the future will make a loss.' So it resulted that the business was transacted largely upon the personal credit of these great houses, or on the credit of the cotton buyer, who was required to be a man of fortune.

But now a man with an office and without much capital is as good as the Brown Bros. He gets his cable order from the spinners he represents on the other side to buy cotton. He buys spot cotton and sells it for future delivery. He sells the very exchange which he is to draw for future delivery. He must know the rate of exchange before he can make his price, and asks the bank to agree to take his exchange at a date in the future. Every transaction connected with it is a future transaction. His possibility of dealing without capital is caused by the fact that an insurance resulting from future delivery is put upon every article that is dealt with in the course of the transactions as they go along.

See what a revolution it has worked in the Southern States. Formerly great masses of cotton would come to the city of New Orleans and be stored. The buyer was gone. Decline was rapid. It required the actual presence of a man of means to buy this property in order to hold it, because the buyer must submit himself to the risk of loss if cotton declined.

What is the situation now? Why, the receipts as they come in are distributed over the year under this system of future contracts. Cotton is bought for future delivery and is thus taken from the spot market. The small consumer is enabled to buy because he is not obliged to pay cash, but can take advantage of a transaction for future

delivery. That is the situation. It has curtailed the profits of the millionaires. It has reduced the charge to the producer.

Mr. President, I telegraphed the secretary of the cotton exchange of the city of New Orleans to ascertain what were the charges of the middleman now as compared with such charges formerly. I have a telegram in reply, in which the secretary says:

"NEW ORLEANS, LA., *July 22, 1892.*

"While no regular statement can be made, owing to irregularity of charges, you can safely state that under old system, including cost of advancing commission on sales of cotton, commission on purchases of supplies, insurance rebates, etc., cost on a bale of cotton averaged fully $5 per bale. To-day millions of bales are sold direct from interior, avoiding many extra charges under the free-on-board-delivery system at 25 and 50 cents a bale under the free-on-board and future delivery systems, which have built many flourishing interior centers. Many of the old items of charge have been abolished; these will be largely restored if present trade methods are interfered with.

"HENRY G. HESTER, *Secretary.*

"Hon. E. D. WHITE,
"*United States Senate.*"

Now, Mr. President, I desire to have read a statement of the results of this business found in the same book which I have read from this morning, commencing on page 103 and going down to the marked paragraph on page 104. That states with such lucidity the evolution of these economic problems that I incline to agree with the distinguished Senator from Nevada [Mr. Stewart] when he said this morning that he considered the author one of the most lucid of political economical writers.

The Secretary read as follows:

"Three independent economies exist in the practice of buying and selling for future delivery, say one, two, or three months ahead, which could not be effected by buying grain on hand and taking present delivery.

"First. Buyers for consumption—millers, exporters, and foreign purchasers—can, through these, convert a future unknow price into a known price, so far as is necessary to enable them to base future contracts for production thereon. Suppose a manufacturer of cotton goods or iron, feeding his own men, as indirectly he does, and obliged to estimate the rate at which he can afford to take orders according to the rate at which he can buy bread and provisions, it is plain that he could 'figure' the rate at which he could take orders more closely if he could make certain his own future rate of expenditure on his supplies or food and provisions. This he could do by buying in August, deliverable in October.

"Second. Precisely as buying in a wide market equalizes prices over a wide area of country and enables millions of persons to produce the same product in close competition with each other, so buying for a considerable period of time, or 'going long' spreads and equalizes over a long period of time the changes in price which are made inevitable by natural causes, such as war, drought, flood, great or small harvests, and the like. Equalization of prices over time is as essential to steady production as equalization of prices over wide areas and numerous groups of producers and consumers. If a raise of 20 cents per bushel in wheat is made necessary by an impending war between two grain-growing countries, and if one buyer knows it three months ahead, and buys his supply at an advance of 2 cents per bushel, he not only saves his own supply, but he brings the market 2 points nearer where it ought to be, and thus serves millions of producers and consumers who are interested in the raise being both early and gradual, not late and spasmodic.

"Thirdly. Such 'futures' originate with buyers, since if no one wished to buy ahead no one could sell futures. Each buyer pays a margin on his contract sufficient to secure the seller against loss in event of a fall in price and no delivery. The futures run in links from the consumer back to the producer. In such cases they cause a current of advance payments to set in from the dealers in the futures or purchasers.

"This is in effect a movement of money in advance from the consumers, or their representatives on the board of trade, to and among the producers. Farmers are thus enabled to get advances on their grain and planters on their cotton, whereby the harvesting is virtually done by the capital advanced by the consumer. This converts articles like cotton and wheat, for which prices are established by 'futures,' into 'cash' articles, or articles on which long advances are had, whereas cotton goods, furniture, and manufactured articles are sold so invariably on long credits that even 'cash' means 30 days after delivery."

Mr. President, I also send to the desk, with a request that it be read, an excerpt from Contractural Limitations, which is a modern book, published in 1892, by an ex-chief justice of the Supreme Court of Indiana. It contains a statement of the problems involved in these modern methods of business which I think so clear that I desire to insert it in my remarks.

The Secretary read as follows:

"Trading in cotton futures was established in New York in 1870 and in New Orleans a few years later. As I am more familiar with the cotton trade than with the other trades in which transactions in futures are made, I will confine my remarks more especially to cotton futures. Contracts in cotton futures are made for the delivery in lots of 100 bales during the month contracted for, such delivery to be at the seller's option upon five days' notice to the buyer. An order on the warehouse for the cotton is tendered for every notice of delivery by the seller to the party to whom he has sold. If the buyer has also sold the cotton for delivery during the month for which he has received notice, it is customary for him to transfer the notice of delivery and warehouse order to the party to whom he has sold, and such transfers are made until 3 p. m. of the day of issuing the notice or until its receipt before that hour by a party who has bought but has not sold, or who desires to receive the cotton, and this party receives the cotton from the one who issued the notice and warehouse order and pays for it.

"As those who have bought and sold have no interest beyond the difference in the price at which they bought and the price at which they sold, it would be a useless expense to have the cost of delivery and receipts incurred for each change of ownership, when the passing of the warehouse order accomplishes every purpose and saves unnecessary charges. All immediate parties between the party who issues the notice and warehouse order and the party who receives the cotton settle with each other the difference between the price of their respective contracts and the price at which the cotton is received and paid for. In the course of business it happens that many contracts are settled before the month of their maturity and without actual delivery of cotton. For instance, a merchant may sell for a planter a contract for October delivery, and the next day he may buy for a southern cotton buyer a contract for delivery the same month, and if these transactions are made with the same party on the exchange, a direct settlement would be made as between the two members of the exchange.

"A merchant might sell to a party, who might sell to another, and this other might have previously sold to the first party, all the transactions being for the same month's delivery. This would make a settlement of contracts between the three and is called a 'ring settlement.' These 'ring settlements' are purely matters of chance. They may be effected very soon after the transaction, or they may not occur for months, and they may not occur at all. They do not in the slightest degree enter into the matter of the original transaction, which is based upon the probability and intention of actual delivery of the cotton contracted for. In much of the legitimte business at present the transactions in futures are of great benefit to producers, manufacturers, merchants, bankers, and the general public.

"About three-fourths of the cotton crop is usually marketed during the first four months of the season. If such a large proportion of the crop was forced upon the market for immediate sale, the effect would certainly be to unduly and greatly depress prices. By the sale of futures against consignments of actual cotton relief is often given to an overstocked market and better prices are secured for the planter than would otherwise be possible. If prices are satisfactory, the planter can direct his merchant to sell futures against his crop before it is actually ready to be marketed and thus secure the benefit of a remunerative price which might not be obtained if the sale could not be made until his crop had actually reached a market."

Mr. President, having referred to the general laws of trade from which the future system was evolved, I now propose to summarily restate some of the benefits which it confers on the cotton planter.

It gives him a wider, safer, relatively higher, and less fluctuating market.

It cheapens the rate at which the producer obtains the money to make his crop by enabling the factor and all who deal with the producer to sell by futures the product with which the producer is to pay them, thus diminishing their risk and enabling them to reduce their charges to the producer.

It has diminished the charge of the middlemen by drawing the producer and consumer together, by enabling the buyer to sell for future delivery and buy the producer's crop to fill his future sale already made.

It has multiplied buyers and brought them to the door of the consumer.

It has multiplied investors by enabling them to buy actual cotton and sell futures against it at a small advance to cover interest and charges, thus making the investment safe. The investor, having sold for future delivery against his purchase of actual cotton, is absolutely safe, is submitted to no risk of fluctuation in the market, and therefore can afford to pay a better price to the producer.

It has enabled the spinner to pay a better price to the consumer. He buys his cotton for consumption by means of a future contract, thus obviating the risk of a decline in the market. He sells the goods which he is to make from the cotton by

a future contract, thus insuring a profit and thus enabling the spinner to do his business on a narrower because a safer margin of profit. It has brought the cotton fields of the South nearer to the great centers of American and European consumption by diminishing the risk, thus reducing the difference in price which formerly existed between cotton in the field of the producer and that cotton at the door of the consumer.

It has relieved banking capital, thus leaving more money to assist the planter in making his crop.

All these things, Mr. President, are the necessary resultants of the first proposition, which is that the system of selling cotton for future delivery gives the producer a wider, safer, relatively higher, and less fluctuating market. If this proposition be true all the others necessarily follow.

Now let me show the existence of these benefits by an examination of the state of the cotton trade before and after the future period, so that by a comparison between the two periods the mind may be able to determine, not by abstract reasoning, but by the touchstone of absolute and undeniable fact, whether the benefits which I have stated have or have not resulted.

In the domain of theory minds may differ. The moment we advance an abstraction, one mind takes one view and the other takes another, and the union of the two minds becomes impossible because of the divergent premises or the contradictory deductions which the minds make.

But when we enter the domain of absolute and unchallengeable fact, then the only question which remains is first to ascertain the truth and then follow it. By that touchstone I hope to demonstrate that this system has been a merciful blessing to the cotton planter of the southern country and to the cotton trade, and that its destruction will entail upon that people in loss of price and incidental sacrifices a sum equal to, it may be, $100,000,000.

I shall say nothing of the grain trade. There are Senators who are more familiar than I am with the movements and operations of grain. I may say, however, that the theory and opinions of all the grain brokers, all the elevator men, all the bankers who advance on its exchange and bills of lading, and all of the people who deal in grain, I think almost without serious exception, adhere to the promises stated in the book which has just been read.

In Minneapolis, the very center of the grain trade, as will be seen, all the organized commercial bodies have filed their memorials here against this bill. While the distinguished Senator from Minnesota was good enough to say to me that he thought they had modified their opinion in consequence of a modification in the bill, I think when it is known what an illusory hope that modification holds out, that their protests will apply. But we are not wanting in this record indubitable evidence that the principles which I assert, and which the theoretical writers and all the practical men assert, apply to grain.

I find in the testimony of Mr. Romer, taken before the Senate Committee on the Judiciary, the following:

"Mr. ROMER. I will say, if I am allowed, that another important miller in the country, in an interview with myself on the Produce Exchange of New York, said he was heartily in favor of this bill. 'Why,' said I, in my simplicity of heart, 'this bill will be an injury to the farmer; this bill will narrow the markets and give him no opportunity to sell to the best advantage.' He said, 'I am not legislating for the farmer, I am legislating for the miller; the farmer will take care of himself.'

"Senator WASHBURN. That man must have been from New York.

"Mr. ROMER. That was ex-Gov. Stanard, of St. Louis, Mo. He is a reputable miller.

"They want to be the buyers and without competition—the buyers at their own price."

Mr. President, I think the testimony here makes it perfectly clear, absolutely clear—and I want to call attention to it very deliberately and have it weighed—that whilst there may be divergence among millers, as there undoubtedly is, from the earnest and zealous and disinterested attitude taken by the Senator from Minnesota on this floor, yet there are other millers who consider that the necessary effect of this bill will be to reduce the price of the product made by the farmer and put him in the hands of and at the mercy of the miller. Mr. Pillsbury, the gentleman to whom I have already referred, and whose testimony is in this record, is a part owner of a vast milling establishment. He testifies that they have, I think, 150 elevators. I may be mistaken in stating the number. Now let me read his testimony, and I invite attention to it. This testimony was taken before the Committee on Agriculture of the House of Representatives:

"Question. Mr. LONG. Well, formerly when millers were able to carry this wheat and flour and their money invested in it they then charged a profit sufficient to cover

the interest on their money and that went out to the markets of the world and paid the expenses, etc., and profits back to the mill man."

That is the question.

"Answer. Mr. PILLSBURY. The universal rule used to be that the miller generally accumulated wheat, say, when the farmers were putting in their surplus, rapidly. The universal rule, almost, used to be that you could buy the wheat cheaper at that time than at any other time, and you could make a fairer profit on the actual holding of the wheat than you could at such times when these movements of the farmers were less."

Let me repeat it.

"You could buy the wheat cheaper at that time than at any other time."

Mr. President, the system of futures was introduced in order to prevent purchasers from taking advantage of the time when the farmer was shipping rapidly, buying low and then selling it afterwards for a large profit. After the system of futures came in, when this vast surplus was accumulating, this was prevented. Not only the rich man but the poor man could buy for future delivery without any risk whatever. Every contract so made necessarily relieves the pressure on the market and gives the producer a better price. Mr. Pillsbury, in what I have just quoted, admits this.

But he goes further—

"Question. Mr. LONG. Well, now, then; as it stands now the miller can not carry the wheat and flour, because there is a large risk attached to it in consequence of wind selling. Then, if this wind selling has the strength that you say it has, it is manifest that it has a prejudicial influence against the raiser of wheat."

Mark you, the question is inconsequential. The answer to the previous question had been that it was prejudicial to the miller of wheat, and the question says "prejudicial to the raiser." Now, mark the answer:

"Mr. PILLSBURY. Yes, sir; against the raiser of wheat"—

Here comes the gist of the answer—

"and the miller before"—

That is, before the system of "futures"—

"could generally use his good judgment and make money by the rise of wheat. I would state a fact, which perhaps would be a surprise to most of your committee, that I have no doubt the milling interests in this country, taken as a whole, in the last 10 years have paid the farmer more money for wheat than they have gotten out of him. That is the fact through the Northwest."

Mr. President, this bill proceeds upon the theory that the farmer has not got his full money; that he has not been paid the value of his product. Here is a statement that under this system during the past 10 years the millers have been paying the farmer more for wheat than they, the millers, have obtained for it.

Let me continue the citation:

"I think I can count"—

Says Mr. Pillsbury—

"on the fingers of my two hands the 150 milling firms, say 10 years ago, in our part of the world; and I think that is true all over the country, that there are only a few millers who, by using the highest triumphs of milling and the best executive ability and producing the best brand of flour, have been able to make anything. The immense competition and capacity of the mills of this country has doubled three times the amount of flour they can make, and it is got right down the last few years to the question of the survival of the fittest; but there was a time when they could always run on a profit, years ago, by buying wheat in the fall, say on an average of $1 a bushel, and we were almost sure to make a good profit by carrying it until the time when the state of the roads, etc., prevented the deliveries being so large. I look on short selling as being the greatest impediment to the profit of milling business in that way."

That is just it, Mr. President. Here, if human language can state it, is an express admission that before the system of futures the way the millers did their business was when the surplus was coming in from the crop in large quantities, to buy it cheap, and when the roads got bad and the farmer's wheat could not come in, to sell it high. If the language does not say that, what does it say?

Does not that exactly tally with my statement of the "future" system? The "future" system has destroyed that. Why? Because a man looking forward to the coming of those muddy roads, and knowing that the muddy roads are to come, has said to the farmer, "Do not sell your wheat now at a low price; I will agree to pay you a month hence, when the roads are muddy, a higher price; just let me take it." So competition has come in, and instead of buying wheat cheap when wheat was abundant and selling it high later on the prices have been equalized.

I do not know whether that is a fact in wheat or not, for I have no experience and I do not propose to discuss it; but I say when, on the face of this testimony, I find the

statement to be that that is the case, I have the right to assume that Mr. Pillsbury knows a great deal more about wheat than I do, and to accept his declaration of what were the consequences before the "future" system, and to see very plainly what is the consequence now, and thus to keenly appreciate the great solicitude of Mr. Pillsbury for the producers of the country and his desire that their grain should sell high.

Now, Mr. President, let me review the facts as to cotton. But before I do that I desire to send up and have read a list of telegrams. I have compiled the telegrams all into one. The phraseology of this one telegram is not literally the phraseology of the many which I have received, but they were all substantially the same, and I have put the signatures under one in order to avoid duplication.

The PRESIDING OFFICER (Mr. Turpie in the chair). The paper referred to will be read.

The secretary read as follows:

"COTTON FACTORS OF NEW ORLEANS.

"NEW ORLEANS, LA., *July 18, 1892.*

"To Hon. E. D. WHITE,
"*United States Senate, Washington, D. C.:*

"We ask your efforts to defeat Hatch antioption bill. Its passage will lower prices, injure planting interests, and badly affect cotton business generally.

"Stewart Bros. & Co.; Geo. W. Sentell & Co.; Hyman, Hiller & Co.; Simon E. Marx; J. Freijhan & Co., Bayou Sara, La.; Lehman, Stern & Co.; John M. Parker & Co.; R. M. Wamsley & Co.; Pugh & Co.; Phelps & Co.; Thos. L. Airey; Levy Bros.; Robert Day & Co. (Ltd.); H. Abraham & Son; J. Weis & Co.; Baldwin & Putnam; Bickham & Moore; W. B. Thompson; Chas. Chaffe."

Mr. WHITE. Mr. President, most of the names found in that telegram are the names not of cotton buyers but of cotton sellers. They are the names of the great body of the cotton factors of New Orleans who carry almost the entire crop of the Mississippi Valley.

Mr. GEORGE. There is an important name missing from that list.

Mr. WHITE. Whose name?

Mr. GEORGE. Richardson & May.

Mr. WHITE. I send up a telegram from Mr. May, of Richardson & May.

Mr. GEORGE. I noticed the absence of the name.

The PRESIDING OFFICER. The paper referred to will be read.

The secretary read as follows:

[Telegram.]

"NEW ORLEANS, LA., *July 18, 1892.*

"E. D. WHITE, *United States Senate:*

"I believe the passage of the antioption Hatch bill will do incalculable damage to the cotton trade and cotton planting in the United States, and I invoke your earnest efforts to defeat it.

"A. H. MAY."

Mr. WHITE. Mr. President, some Senators here know personally Mr. John T. Hardie, of the city of New Orleans, and his great business experience. I had a telegram to the same effect from him.

I repeat that these telegrams are not from cotton buyers, but they are from cotton sellers, and there does not live a body of more enlightened and honorable merchants than those whose names are found upon that list. Many of them have been in the cotton industry from its infancy, and in all its trials and tribulations. They have followed it through it all, and they are doing it to-day, as they have always done, honestly and wisely.

I desire to say another thing. Among that body of high-minded and enlightened gentlemen and progressive merchants, who have been in this business for all these years, there are found none of these great aggregations of wealth to which the distinguished Senator from Minnesota referred. There is honest competency among them, and many are large cotton planters.

I have received besides these a telegram, which I desire read, from the dealers in rice and sugar and produce in the city of New Orleans.

The PRESIDING OFFICER. The paper referred to will be read.

The secretary read as follows:

"NEW ORLEANS, LA., *July 19, 1892.*

"Hon. E. D. WHITE, *Washington:*

"We, the undersigned dealers in rice, sugar, and produce, consider the antioption bill as detrimental to business and feel that its passage would work injury to our interests.

"Bloom & Son, Lefelrere & Marionneau, Miltenberger & Flower, O. Doyle & Co., John W. Coyle, B. W. Seago, J. A. Harral, Elmer & Zeelbrook, G. Schwartz."

Mr. WHITE. I will not encumber the record by more telegrams. I take it for granted that if a man wanted an opinion as to the operation of this bill upon cotton he could not go to a more enlightened source for the information than to these gentlemen—information coming, as I said just now, from sellers of cotton: information coming from men who are solely interested that it should bring as high a price as possible: information coming from men who have watched these movements through all these years with a solicitude born of the keenest interest, because they are always involved in it. When that is the case, when the universal opinion of the commercial world sustains them, am I to be told that we are to take the opinion on the subject of men who have had no experience whatever?

But let me now come to figures. I send to the reporter and desire to have incorporated in my remarks—I will not have it read—a table showing the annual crop, the exports, and United States consumption of cotton since 1841, which is brought down to 1891.

The table referred to is as follows:

[From Cotton Facts, by A. B. Shepperson.]

Statement of annual crops, exports, and United States consumption of cotton since 1841.

Season.	Total crop.	Exports.			Home consumption.	
		To Great Britain.	To Continent.	Total exports.	Takings of northern mills.	Takings of southern mills and burned.
1841–42	1,684,000	936,000	529,000	1,465,000	268,000	[1]
1842–43	2,379,000	1,470,000	540,000	2,010,000	325,000	[1]
1843–44	2,030,000	1,202,000	427,000	1,629,000	347,000	[1]
1844–45	2,394,000	1,439,000	645,000	2,084,000	389,000	[1]
1845–46	2,100,000	1,102,000	565,000	1,667,000	423,000	[1]
1846–47	1,779,000	831,000	410,000	1,241,000	428,000	[1]
1847–48	2,423,000	1,324,000	534,000	1,858,000	532,000	75,000
1848–49	2,840,000	1,538,000	690,000	2,228,000	518,000	112,000
1849–50	2,204,000	1,107,000	483,000	1,590,000	488,000	107,000
1850–51	2,415,000	1,418,000	571,000	1,989,000	404,000	60,000
1851–52	3,125,000	1,669,000	775,000	2,444,000	588,000	111,000
1852–53	3,416,000	1,737,000	791,000	2,528,000	650,000	153,000
1853–54	3,075,000	1,604,000	715,000	2,319,000	592,000	145,000
1854–55	2,982,000	1,550,000	694,000	2,244,000	571,000	135,000
1855–56	3,665,000	1,921,000	1,034,000	2,955,000	633,000	178,000
1856–57	3,094,000	1,429,000	824,000	2,253,000	666,000	154,000
1857–58	3,257,000	1,810,000	780,000	2,590,000	452,000	143,000
1858–59	4,019,000	2,019,000	1,002,000	3,021,000	760,000	167,000
1859–60	4,861,000	2,669,000	1,105,000	3,774,000	793,000	186,000
1860–61	3,849,000	2,175,000	952,000	3,127,000	650,000	193,000
1861–65 [2]						
1865–66	2,278,000	1,262,000	293,000	1,555,000	541,000	127,000
1866–67	2,233,000	1,216,000	341,000	1,557,000	573,000	150,000
1867–68	2,599,000	1,228,000	428,000	1,656,000	800,000	168,000
1868–69	2,434,000	989,000	458,000	1,447,000	822,000	173,000
1869–70	3,114,000	1,475,000	704,000	2,179,000	777,000	80,000
1870–71	4,347,000	2,368,000	800,000	3,168,000	1,072,000	91,000
1871–72	2,974,000	1,474,000	483,000	1,957,000	977,000	120,000
1872–73	3,874,000	1,920,000	756,000	2,676,000	1,063,000	135,000
1873–74	4,130,000	1,852,000	959,000	2,811,000	1,192,000	128,000
1874–75	3,831,000	1,833,000	841,000	2,674,000	1,071,000	130,000
1875–76	4,632,000	2,005,000	1,227,000	3,232,000	1,220,000	134,000
1876–77	4,474,000	1,994,000	1,034,000	3,028,000	1,302,000	127,000
1877–78	4,774,000	2,047,000	1,309,000	3,356,000	1,345,000	151,000
1878–79	5,074,000	2,053,000	1,413,000	3,466,000	1,375,000	198,000
1879–80	5,761,000	2,554,000	1,310,000	3,864,000	1,574,000	223,000
1880–81	6,606,000	2,832,000	1,733,000	4,565,000	1,713,000	230,000

[1] No estimate.

[2] Civil War—no record of cotton movement.

Statement of annual crops, exports, and United States consumption of cotton since 1841—Continued.

Season.	Total crop.	Exports.			Home consumption.	
		To Great Britain.	To Continent.	Total exports.	Takings of northern mills.	Takings of southern mills and burned.
1881-82	5,456,000	2,295,000	1,256,000	3,551,000	1,677,000	287,000
1882-83	6,950,000	2,886,000	1,838,000	4,724,000	1,759,000	313,000
1883-84	5,713,000	2,485,000	1,432,000	3,917,000	1,537,000	246,000
1884-85	5,706,000	2,425,000	[3] 1,495,000	3,920,000	1,437,000	318,000
1885-86	6,575,000	2,565,000	[4] 1,771,000	4,336,000	1,781,000	385,000
1886-87	6,499,000	2,704,000	[5] 1,741,000	4,445,000	1,687,000	422,000
1887-88	7,047,000	2,814,000	[6] 1,813,000	4,627,000	1,805,000	459,000
1888-89	6,939,000	2,810,000	[7] 1,926,000	4,736,000	1,790,000	485,000
1889-90	7,297,000	2,854,000	[8] 2,052,000	4,906,000	1,780,000	550,000
1890-91	8,674,000	3,345,000	[9] 2,446,000	5,791,000	2,027,000	620.000

[3] Including 28,028 to Mexico.
[4] Including 34,125 to Mexico.
[5] Including 40,774 to Mexico.
[6] Including 33,203 to Mexico.
[7] Including 41,259 to Mexico.
[8] Including 28,414 to Mexico.
[9] Including 31,443 to Mexico.

Mr. WHITE. Now, what is the claim which those who defend future sales advance? The claim is this: That as in a few months the whole cotton crop was precipitated upon the market, this created a glut in the market and put the producer largely at the mercy of the buyer. The crop either had to be sold or to be stored. If the buyer was not there to take that crop, then there was this vast mass of receipts, and of course there was a serious decline in the market.

Our total spinning capacity in this country represents a little under a third of our crop—somewhere between a third and a fourth. I will not be accurate in this statement. The balance of the crop was for exportation, and the agents of the great English buyers and consumers were there; and if they did not buy, the price went down.

Under the system of "futures" has this evil increased or has it diminished? It should have increased largely, because before the future period the crops came in more slowly than they do now. Why? In the first place, the greater part of the cotton crops in the South in the olden times was made by slave labor, and if the price was not satisfactory the large planters were able to hold their crops for an advance. In the second place, a great part of the cotton was grown on the alluvial lands along the streams, and the only exit to the markets of the world was the rising of the water in those streams. All these things and others of less importance tended at that time to retard somewhat the incoming of the crop of cotton. Despite that fact, in the first months of the season, before future dealing came in vogue, when the cotton came in there was always, unless there was some abnormal condition, which can easily be explained, a serious depression in the market, which put the producer absolutely at the mercy of the consumer. Who was to take it but the consumer? He availed of his advantages and fixed the price.

As this evil grew, the system of futures was devised, and devised for what purpose? Devised for the purpose of bridging over this glut, of preventing this cotton which came from being pushed upon the market, thus allowing it to be bought by a man who could not pay for it at once but who could do so two or three or four months off, thus necessarily spreading the large receipts over a longer priod instead of throwing them all upon the market and causing them to be sold for the prices the consumer was then willing to give.

Mr. GEORGE. Will the Senator allow me to ask him a question for information?

Mr. WHITE. Certainly.

Mr. GEORGE. I understand the position of the Senator from Louisiana with reference to the cotton trade to be, that now, owing to the increased facilities for marketing the cotton crop, railroads and all that sort of thing, contrary to the fact as it existed many years ago, when a very large amount of cotton was precipitated into the New Orleans market, much more than was needed then by the consumers—am I right that far?

Mr. WHITE. I say the receipts are larger now than they were then. I did not enter into that question. I spoke of the price of cotton.

Mr. GEORGE. Then I understand the Senator to say—and I want to understand him and I want him to understand me, because I know there are many difficulties about this thing—I understand the Senator to say that but for the "future" system of dealings this cotton would be thrown upon the market then and there in its glutted state, and there would be a great fall in the price. Is that right?

Mr. WHITE. I was not saying that when the Senator was kind enough to interrupt me. I had advanced that as a theory in my argument before, and I was proceeding to demonstrate as a fact that it was so. I am not engaged now in the statement of theoretical problems. I was endeavoring to put my theories to the touchstone of fact by showing that such was and is the case.

Mr. GEORGE. Very well. Then I understand the Senator to change his position a little from the way I understood him, for now he states the proposition a little differently, that the records of the commercial exchanges and the cotton exchanges demonstrate the fact that when this cotton gets into New Orleans or other markets in the fall in this glutted state, the result is that there is a fall in the price?

Mr. WHITE. Always.

Mr. GEORGE. Let me go on. Now, I understand the Senator to say that the "future" sales or the "future" system will counteract that, but it does not now operate in that way owing to the "future" system. Is that so?

Mr. WHITE. Oh, no; I did not say that. I said not to the same extent.

Mr. GEORGE. Very well. It lessens it, then?

Mr. WHITE. It lessens it seriously.

Mr. GEORGE. Let us understand this. What prevents, under this bill, every single bale of cotton that reaches New Orleans or any other port in these crowded months, these months of surfeit, being sold for future delivery?

Mr. WHITE. I beg the Senator's pardon. He is now making an argument, and not asking a question.

Mr. GEORGE. I am asking a question.

Mr. WHITE. No; that is making an argument. I was not discussing whether it could be done under this bill. I am simply now demonstrating the fact that the system of "futures" had prevented the consequences of overreceipts, and in the course of my argument, if the Senator will allow me, I intend to discuss the matter he is speaking of.

Mr. GEORGE. I am very much obliged to the Senator for his courtesy; but this is a matter in which my constituents feel a great interest, and I do not want to make a mistake about it. I thought that the Senator had asserted a proposition and a theory which could not be made to fit the facts of the case. If, now, the Senator, who has been so very courteous to me as to allow me to interrupt him so far, thinks I am trespassing and that he will answer this matter further on, then I have only to say that I thank him for his courtesy so far, and that if my life and health are spared I shall try some time during this debate to answer any position which he may take which goes to show that the price of this large amount of cotton in New Orleans or in the other market places of this country is not affected by the future sales, except deleteriously.

Mr. WHITE. Mr. President, in illustration of what I was saying, I hold in my hand a table. I will comment upon the table before asking to have it printed with my remarks. I have tabulated the receipts of cotton at the ports of this country from 1870–71 down to 1891–92. The figures are startling. From September 1 to December 31 there were received in 1870–71, 1,642,000 bales of cotton. There were received in 1871–72, 1,392,000 bales.

Mr. GEORGE. At all the ports?

Mr. WHITE. At all the ports. Now, I want to call attention to these figures. I shall not read the whole list, but the table will speak for itself in the record as part of my remarks.

In 1889–90 there was received before the 31st day of December 4,270,000 bales. In 1870–71 the amount was 1,642,000 bales, and it is but little over 2,000,000 bales, as a rule, running down the list, until we get to 1878–79. Then it was 2,651,000 bales.

Mr. GEORGE. Let me ask the Senator right there if he has the total for each year, so as to show the proportion?

Mr. WHITE. I have already offered as part of my remarks such a statement.

Mr. GEORGE. The Senator does not understand me. The subject will be more understandable if the table is inserted.

Mr. WHITE. If the Senator will allow me, I am dealing with statistics, and if he does not let me proceed with an orderly statement he will confuse me.

Mr. GEORGE. I do not wish to interfere with the Senator.

Mr. WHITE. In making a statistical statement, without intending to be discourteous, I should prefer not to be interrupted.

Mr. GEORGE. I beg pardon of the Senator. I will not interrupt him again.

Mr. WHITE. We had not reached a higher figure than 2,600,000 in 1876–77; in 1891–92 the total receipts up to the 31st day of December were 4,783,000 bales—nearly 5,000,000 bales.

Now, just make the comparison. In 1870–71 there were 1,642,000 bales; in 1891–92, 4,783,000—nearly 5,000,000 bales.

The table referred to is as follows:

Table showing the increase in the quantity of cotton marketed during the first four months of the season since 1870.

Season of—	Cotton received at the ports Sept. 1 to Dec. 31.	Receipts at the ports for entire season.	Date of arrival at the ports of one-half of the season's receipts.	Season of—	Cotton received at the ports Sept. 1 to Dec. 31.	Receipts at the ports for entire season.	Date of arrival at the ports of one-half of the season's receipts.
	Bales.	*Bales.*			*Bales.*	*Bales.*	
1870–71	1,612,000	3,958,000	Jan. 17	1881–82	3,247,000	4,688,000	Dec. 3
1871–72	1,392,000	2,732,000	Dec. 29	1882–83	3,530,000	6,010,000	Dec. 18
1872–73	1,684,000	3,595,000	Jan. 8	1883–84	3,494,000	4,800,000	Nov. 30
1873–74	1,858,000	3,764,000	Jan. 1	1884–85	3,642,000	4,774,000	Nov. 26
1874–75	2,106,000	3,509,000	Dec. 16	1885–86	3,572,000	5,358,000	Dec. 4
1875–76	2,340,000	4,195,000	Dec. 23	1886–87	3,732,000	5,301,000	Dec. 2
1876–77	2,601,000	4,035,000	Dec. 8	1887–88	4,011,000	5,612,000	Nov. 23
1877–78	2,398,000	4,334,000	Dec. 22	1888–89	3,714,000	5,547,000	Dec. 5
1878–79	2,651,000	4,451,000	Dec. 16	1889–90	4,270,000	5,856,000	Nov. 26
1879–80	3,131,000	5,027,000	Dec. 10	1890–91	4,430,000	6,979,000	Dec. 8
1880–81	3,447,000	5,878,000	Dec. 16	1891–92	4,783,000	[1] 7,150,000	[1] Dec. 1

[1] Estimated on basis of receipts to July 15, 1892.

A comparison with 20 years ago shows that the receipts at the ports for the four months ending December 31, 1891, were nearly three and a half times larger than for the corresponding period of 1871, and exceeded the receipts of 1871 by 3,391,000 bales. The cotton marketed during the first four months of the season of 1891–92 exceeded the entire crop produced in any season previous to that of 1878–79. It will also be observed that while the date of arrival at the ports of one-half of the season's receipts was in 1871 on January 17, the date of such arrival of recent years has been from November 23 to December 3, or about six or seven weeks earlier.

Mr. WHITE. This table also shows the date of the receipt of one-half the crop. On it I find this instructive statement: One-half of the total crop in 1870–71 had arrived by January 17; in 1872–73, January 8; in 1873–74, January 1; and now and then one-half of the crop arrived at various days in December. In 1888–89, by December 5 one-half of the total crop had arrived in the city of New Orleans and other ports. In the following year, 1890–91, one-half of the total crop had arrived by December 8. In 1891–92 the crop is estimated, because we can not make it complete, and it is estimated on the basis of receipts up to July 15.

This shows the great pressure of receipts on the market; this shows how the cotton pours in now at an early day. Who is to buy this cotton? If all this cotton is precipitated upon the market and if it had required actual buyers to be then and there ready to take it up for immediate delivery, why would not the producers have been at the mercy of the consumers? How can I show that this system of futures produced the result of obviating the consequences of the glut by selling not only to those wanting for the present but also to those requiring it for the future or more remote periods? I think I can do so not only by reasoning but also by facts——

Mr. BUTLER. May I interrupt the Senator a moment, because I want to get at the real facts, and I know he does?

Mr. WHITE. Certainly.

Mr. BUTLER. Is it not a fact that a great deal of the cotton which the Senator says goes into all the ports of the United States at certain dates has been already bought from the producers?

Mr. WHITE. Yes, sir; of course.

Mr. BUTLER. The farmer has sold it?

Mr. WHITE. There is no doubt about that.

Mr. BUTLER. So that when the argument is made that that has any effect upon the producer, I submit to the Senator if it were true, and if the statement which I have just made be true, his argument falls to the ground.

Mr. WHITE. On the contrary, it confirms my argument. If the Senator understands—and I was coming to that as an entire answer to the Senator from Mississippi [Mr. George]—it is just a confirmation of my argument "strong as proof of Holy Writ." I will demonstrate it if the Senator will have a little patience.

Mr. BUTLER. I am patient.

Mr. WHITE. I say the effect of the arrival of all this cotton was necessary to reduce the price. What else could it do? It always has done it, and does it with every product. I have shown the vast increase of the receipts for a given time in the modern period over the old period, resulting from modern facilities. Now I propose to make a comparison showing how much cotton fell before the "future" period, at the time of large receipts of the crop, and how much it fell after the "future" period. If I find that after the "future" period the decline in cotton from the pressure of receipts was less than it was before the "future" period, although the receipts have been largely increased, do I not make a demonstration that can not be answered? The fact that there was a decline in both periods is not gainsaid, the question is, In which period has there been the least decline?

I hold in my hand an exhibit of the dates of the lowest prices for cotton in New York during each season from 1850–51 to 1860–61—that is, a period before futures. I do not take in the period from 1861–62 to 1870–71, because of the war and the fluctuations in gold. I stop at 1861, because the war intervened, and if I went into the subsequent period, before 1880, questions of gold value, of the rate of exchange, and the disturbance of currency resulting from the war would be factors in the problem. I desired to make an accurate compilation. The statement, as I have said, shows the lowest point to which cotton fell from 1850–51 to 1860–61, and from 1880–81 to 1890–91.

I take these two periods, one before the system of "futures" and one after. I want to show the fact that the incoming crop caused a glut in the market and thus produced a depression in price which was common to both periods. It does that, as I said just now, in every product, and that glut occurred at about the same time relatively. Here it is. In 1883–84 the lowest price was September 1, 1883; take 1853–54, and the lowest price was October 21, 1853; take 1884–85, and the lowest price was October 24, 1884; and the lowest price in 1854–55 was December 15, 1854; take 1885–86, and the lowest price was February 26, 1886; and the lowest price in 1855–56 was November 9, 1855.

The depression, therefore, of both periods was as a rule coincident with largest receipts.

Dates of lowest prices of middling upland cotton in New York during each season from 1850–51 to 1860–61, and from 1880–81 to 1890–91.

Season of—	Date of lowest price.	Season of—	Date of lowest price.
1850–51 [1]	Aug. 5, 1851	1880–81 [3]	May 10, 1881
1851–52	Dec. 26, 1851	1881–82	Oct. 17, 1881
1852–53	Dec. 14, 1852	1882–83 [4]	Apr. 4, 1883
1853–54	Oct. 21, 1853	1883–84	Sept. 1, 1883
1854–55	Dec. 15, 1854	1884–85	Oct. 24, 1884
1855–56	Nov. 9, 1855	1885–86	Feb. 26, 1886
1856–57	Sept. 2, 1856	1886–87	Nov. 4, 1886
1857–58	Jan. 5, 1858	1887–88	Oct. 3, 1887
1858–59 [2]	June 3, 1859	1888–89	Oct. 7, 1888
1859–60 [2]	July 20, 1860	1889–90	Nov. 4, 1889
1860–61	Dec. 5, 1860	1890–91 [5]	Aug. 17, 1891

[1] Crop of 1851–52 proved to be the largest up to that date, and when it became apparent in August, 1851, that the new crop would be greatly in excess of any previous season prices could not be maintained.

[2] Warlike apprehensions in Europe caused serious declines in prices in June, 1859, and July, 1860.

[3] Crop of 1880–81 was largest grown up to that time. It exceeded previous crop 845,000 bales. Its vast size was not fully realized by the trade until May, 1881, when prices declined under the large stocks.

[4] Crop of 1882–83 exceeded all previous crops, and was about 1,500,000 bales greater than the preceding crop. This was not plainly seen until April, 1883, when prices declined to lowest of the season.

[5] Crop of 1890–91 exceeded the estimates made in November, 1890, by over 1,000,000 bales, and when it was seen that the crop of 1891–92 would also be large the prices gave way.

Now, I want to call attention to another fact. I hold in my hand a statement of the total sales of futures in New York and New Orleans. Every future sale is registered in the New Orleans and New York Cotton Exchanges. The statement contains the future sales in the cities named of the cotton crop from 1880–81 to 1890–91, inclusive—the whole volume of those sales, the volume of the crop, and the average price of spot cotton for each season.

d cotton crops 1880–81 to 1890–91,

	Total.	Crops.	Average price middling in New York.
	31,961,400	6,605,760	11⅜
	34,892,900	5,456,048	12¼
	37,619,900	6,949,756	11½
	33,768,000	5,713,200	11
	29,725,000	5,706,165	10⅜
	32,401,200	6,575,691	9½
	39,722,300	6,505,087	10 5/16
	37,634,200	7,045,833	10⅜
	26,932,300	6,938,290	10½
	28,002,000	7,311,322	11⅛
	35,530,000	8,652,597	9 7/16
	368,191,000	73,459,479	

ter the volume of "future" sales price was for spot cotton. Here questioned authority in the cotton a dealer in cotton, but devoting I wish to print the table in the ator's attention to it, particularly that taking the volume of future e of actual spot cotton was higher portion to the volume of the crop. simple elementary proposition of ur; that is, that prices are always here is, the more you get for the distinguished Senator the other hing; you have taken the average want to call your attention to the it does not give as high an average farmer, and that it is a system of e glut comes the farmer's cotton the farmer has already marketed. er takes the hand of the farmer of Despond, and when he is led up goes the price and the specu- absolutely and entirely false in h it is untrue, it seems to be an of fact.

of Mr. D. W. McCune, who repre-

ill be read.

by the other side here, that this the market, and if it also be true the market, then it follows if the ason temporarily reduces prices, as was ably shown by the gentle- d the effect of frightening away te capital that would otherwise erabundance, and if they could e of the demand and have some into it, but owing to the manip- ation that it horned off and kept would not take hold of it at all. dually intending to show is this, They squeeze the cotton out of so that he will not buy a pound eep legitimate capital frightened

"Now, this system does not result from a little buyer who buys a few hundred bales and sells against it while his cotton is going to market; it is not from legitimate business men at all, but it is done by these combinations that manipulate, that squeeze the crop out of the hands of the producer and hold it through the season, and deal it out in driblets as they need it at a high price.

* * * * * * *

"Of course that is impossible; but I do believe that there is a certain part of it—that is, the part of it that is carried on a large scale at exactly the right time, when the crop commences to move, when the money is scarce, when the big buyers who have agents all over the country want to buy, that they can turn and fairly flood the leading future market—New York—with sales and offers to sell and depress the price very materially. I do not see how anyone can deny that. Now, I am taking, Mr. Chairman, a more conservative position perhaps than I believe, but I am taking it so as to be sure and just."

Mr. WHITE. Before I meet that argument I desire to call attention to the difference between the Senator from Minnesota and this gentleman. The idea of the Senator from Minnesota seems to be that this future system prevents the enhancement of price, drives it down always and continuously. The idea of the gentleman whose statement has just been read is not that futures affect the price continuously, but that futures make the price low while the farmer is selling and then make it high when the speculator has gotten it. The two pretensions can not be both true. The Senator from Minnesota said yesterday that the effect of futures was such that when a man bought he could never sell with profit; he could not carry it; he could not get along. If a man be a buyer, then it seems to me he would buy at the season when these speculative buyers would be in the market—that is, buy when, if McCune be right, they were closing the farmer out cheap, and sell when the speculators were raising the price. That, it seems to me, would be the time to sell.

If this is a system by which the cotton factors and all those representing the cotton planter put the crop down, when it is coming in buy it, and then raises the price and sell it high for themselves, it seems to me that is a kind of business that would just suit the miller. But the Senator from Minnesota says that that does not exist, although Mr. McCune says it does.

To show that this view is not true, I have made a comparison of prices of middling upland cotton in New York from 1880 to 1891 with the period from 1850 to 1861, the same standard of comparison being applied to both. I have taken the prices during both periods. Here they are during the time when the future system did not exist, from 1850 to 1861. Here they are when the future system did exist, from 1880 to 1891. I have taken those two sets of prices and made the calculation, and any man can make it.

I will print the table as a part of my remarks. It shows the range of fluctuation in the two periods. What was it? Why, sir, the greater range of fluctuation was in the period from 1850 to 1861, before futures. In 1850–51 the fluctuation was $3\frac{7}{16}$ cents more than the range of fluctuation in the first year of the other period, 1880–81. In 1851–52 it was fifteen-sixteenths more than it was in 1881–82. In 1854–55 it was $2\frac{1}{2}$ cents more than in 1884–85. In 1856–57 it was $2\frac{5}{16}$ cents more than it was in 1886–87. In 1857–58 it was $4\frac{1}{16}$ cents more than in 1887–88. There are but three years in the whole time in which the range of fluctuation in the period where futures obtained was greater than the range of fluctuation existing before the future period, and those three years are explained by the occurrence of disturbances which operated on the market entirely extraneous from the future question. I will annex explanations of these years by way of notes to the table.

Comparison of prices of middling upland cotton in New York since 1880 with the period from 1850 to 1860.

Season of—	Highest price.	Lowest price.	Range of fluctuations.
1880–81	13	$10\frac{7}{16}$	$2\frac{9}{16}$
1881–82	$13\frac{1}{16}$	$11\frac{1}{2}$	$1\frac{9}{16}$
1882–83	$12\frac{1}{16}$	10	$2\frac{1}{16}$
1883–84	$11\frac{1}{16}$	$10\frac{1}{16}$	$1\frac{1}{16}$
1884–85	$11\frac{1}{2}$	$9\frac{1}{2}$	$1\frac{1}{2}$
1885–86	$10\frac{1}{2}$	$8\frac{1}{16}$	$1\frac{7}{16}$
1886–87	$11\frac{7}{16}$	$9\frac{1}{16}$	$2\frac{5}{16}$
1887–88	$11\frac{1}{16}$	$9\frac{7}{16}$	$1\frac{1}{16}$
1888–89	$11\frac{1}{2}$	$9\frac{9}{16}$	$1\frac{1}{2}$
1889–90	$12\frac{1}{2}$	$10\frac{1}{2}$	$2\frac{1}{2}$
1890–91	11	$7\frac{1}{16}$	$3\frac{7}{16}$

Comparison of prices of middling upland cotton in New York since 1880 with the period from 1850 to 1860—Continued.

Season of—	Highest price.	Lowest price.	Range of fluctuations.	Greater range of prices in period before "futures."	Less range of prices in period before "futures."
1850–51	14⅛	8⅛	6	3 1/16	.....
1851–52	11	8½	2½	1 1/16	.....
1852–53	11½	9⅜	1⅞	.....	1 1/16
1853–54	11⅜	10½	1⅛	.....	[2] 1 1/16
1854–55	13	8¾	4¼	2⅛	.....
1855–56	11⅜	9	2⅜	1 1/16	.....
1856–57	15¼	11⅛	4⅛	2 1/16	.....
1857–58	15¼	8⅜	6⅞	4 11/16	.....
1858–59	13½	10⅜	2⅛	1	.....
1859–60	11¾	10½	1¼	.....	[3] 1¼
1860–61 [4]	14	10	4	1 1/16	.....

[1] The crop of 1882–83 was the largest grown up to that time and exceeded the previous crop 1,500,000 bales. Prices yielded under the pressure of excessive receipts and stocks, thus causing wider fluctuation in prices.

[2] The season of 1883–84 opened under the depressing influence of the large stocks remaining in the United States and Liverpool from the crop of the previous season (an increase of about 360,000 bales), and the lowest prices were current from Sept. 1 to Jan. 1. The condition of the new crop planted in the spring of 1884 was unfavorable and this caused a sharp advance, thus widening the range of fluctuations. The crop proved to be 1,237,000 less than the previous one.

[3] In the first four months of the season of 1889–90 the receipts at the ports were the largest previously recorded, reaching 4,270,000 bales, and exceeding the receipts of the corresponding period of the previous season by 556,000 bales. Under this pressure prices receded from 11⅜ cents on Sept. 1 to 10¼ cents on Nov. 4, this latter price being the lowest of the season.

[4] Prices for 1860–61 are to the end of April. The Civil War was a disturbing factor after that date and prices advanced before close of the season (Aug. 31) to 20 cents, making a range for the entire season of 10 cents.

Reference to the seasons from 1866–67 to 1879–80 has been omitted because they covered what is known as the reconstruction period, as well as the time of suspension of specie payments. The fluctuations in cotton during these years were very great, and the fluctuations for the four years immediately preceding the establishment of the future-delivery business in New York were the largest of which there is any record. The fluctuations for middling cotton in New York in 1866–67 were 17 cents; in 1867–68, 17½ cents; in 1868–69, 10¾ cents; in 1869–70, 15¾ cents.

But it may be said you have calculated in the range of fluctuation, and in order to arrive at the range of fluctuation you have taken the highest and lowest price during the whole year. There is no other way to do it.

Mr. RANSOM. Will my friend allow me to interrupt him?

Mr. WHITE. Certainly.

Mr. RANSOM. Will the Senator give us the list of prices representing the period?

Mr. WHITE. I have not the list of prices under my hand. The prices were higher before the future period.

Mr. RANSOM. They were higher in the first period, were they not, the period when they had no futures, than in the period when they had the actual prices?

Mr. WHITE. Of course, cotton was generally higher years ago than now, and so with everything else. There is no contention about that. There is no contention in this testimony here anywhere that the effect of the future system was to lower the price of cotton. I have read the statement of Mr. McCune in which he says that the effect of this system is not to affect the general price but to make cotton low when the farmer is selling and high when he is not selling.

If the Senator will turn to the Statistical Abstract and make a comparison with all of our agricultural products which are not sold by future delivery he will find that shrinkage in value affects not only cotton but all other things in this country equally. To attribute general shrinkage in value (which has affected the whole country, affected things which are not covered by futures as well as things which are covered by futures), to the future system, when the record does not contain any such pretension, when the gentlemen whom they are combating for say it is simply to prevent them from being skinned by having the price put down and then put up, is asking me a question which, in my judgment, is entirely out of the record.

Mr. RANSOM. My friend will pardon me. He invited the question, or I should not have asked it, by a remark which he just made to me in a low voice. He was speaking of the fluctuations, and I simply desired the information for myself and the Senate to

show what the comparative prices were in the two representative periods he designated. I asked the Senator this simple question for information, and I hope he will not hold me responsible for what any other person has said are complaints of farmers and what are not.

Mr. WHITE. I thought I had fully answered that question by what preceded, when I exhibited a table showing the volume of futures and the volume of crop, and the price, and showed that price depended absolutely upon the law of supply and demand and not upon the quantity of futures. I thought that question had been answered. I think now to my mind it is perfectly and absolutely and satisfactorily answered.

Mr. RANSOM. I did not mean to be involved in this little colloquy between us, but I took the liberty of reading a part of the memorandum which the Senator had offered to show that the price of cotton was highest when the volume of futures was largest. He read the memorandum to the Senate to show that the price of cotton was highest when the volume of futures was largest. I read hastily the memorandum, and I have it now before my eye. I learned from the memorandum that the price of cotton was highest when the supply was smallest, and that the volume of futures had nothing to do with the price one way or the other, or at least it did not have the effect the Senator attributed to it. For instance——

Mr. WHITE. I think the Senator ought not to interrupt me by making a speech at this time.

Mr. RANSOM. All right; I will not.

Mr. WHITE. I am engaged in a regular argument.

Mr. RANSOM. I am very sorry——

Mr. WHITE. I appreciate the Senator's regret at interrupting me, and I know how keenly he feels its force.

Mr. RANSOM. While the Senator was in his seat and the Clerk was engaged in reading I asked him a little question, and he said he wished I would ask him then, so he could satisfy my mind. But my mind is not satisfied. I am an anxious inquirer.

Mr. WHITE. Evidently the Senator is very anxious.

Mr. RANSOM. I am very sorry I disturbed my friend—extremely sorry. I did not mean to do so. It is a thing I am very rarely guilty of in the Senate.

Mr. WHITE. The solicitude of the Senator from North Carolina, I think, would be fully answered if he had listened to what I said when I produced this table. I never thought, and I made no such statement, that the price depended upon the volume of futures; but I said that the average price of the years since the existence of futures was largest in the proportion the quantity of futures bore to the crop. Of course that statement is a mathematical statement of the proposition that the law of supply and demand governed, as the volume of futures depended upon the volume of crop. The Senator looks at the statement and says the statement demonstrates that the price depended upon supply and demand, and yet he asked me whether futures affected it. That is the answer I got.

Mr. RANSOM. I did not understand the Senator, then.

Mr. WHITE. In order to prevent any possible implication that this calculation of average embraced any very low period or very high period, I have taken the price of middling cotton in New York from 1880–81 to 1890–91, month by month, and also during the period where no futures existed, month by month, from 1850–51 to 1860–61, and it shows beyond a peradventure of a doubt large and abnormal fluctuations, month by month, before futures. That is the very condition of things which is complained of here existed then, and it also shows the absence of such a condition of things during the future period.

In other words, taking the prices month by month since the future period, you find a small decline, a decline when the cotton begins to come in, but the rate of decline from that declining point throughout the year is less than was the rate of the fall in the period where no futures obtained. Taking the fluctuations, following them month by month since futures, you find the amount a fraction of a cent. Taking the fluctuations during the other period, it is not infrequent that they run up into large figures. I will take some of them as examples. Take 1884–85, December was 1.39 above September; 1854–55, December was 1 cent below September. In other words, despite the incoming of the crop in 1884–85, December prices had been driven up to 1.39 above what cotton opened at the commencement of the season, whilst in 1854–55 it had lowered in price 1 cent from the beginning of the season. Of course all these statements refer to the prices of actual cotton.

Go to another year. Take 1885–86; October prices were 0.21 below September. In 1855–56 they were 1 cent below September. Take 1887–88; December was above November 0.35. In 1857–58 December was below November 2 cents. In other words,

the very process which is complained of here occurred before the future period and not since the future period. Why was this? Because futures held the market with a steady hand; and although there was, as a rule, a decline, that decline has been small compared with the persistency of decline and the abnormal fluctuations which took place before futures came into existence. Now, if this is not a complete answer to the complaints, I do not know what could be. I submit this table to be printed as a part of my remarks:

Average price of middling cotton in New York for each month and for each season 1850–51 to 1860–61 and 1880–81 to 1890–91.

Months.	1850–51	1851–52	1852–53	1853–54	1854–55	1855–56	1856–57	1857–58	1858–59	1859–60	1860–61	1880–81
September	13 1/16	9 3/8	10 11/16	11 1/16	10	10 1/2	11 11/16	15 11/16	13 1/16	11 11/16	10 11/16	11.80
October	14 3/16	9 5/16	10 3/8	10 3/8	10 3/8	9 3/8	12 3/8	(1)	12 11/16	11 7/16	11 5/16	11.25
November	14 3/8	8 11/16	10 1/2	11 1/8	9 3/8	9 7/16	12 3/8	12 3/8	11 3/8	11 3/8	11 7/16	11.27
December	13 3/8	8 3/8	9 7/8	11 1/8	9	9 3/8	11 7/16	10 3/8	11 1/16	11 7/16	10 9/16	11.92
January	13 1/16	8 5/16	10 5/16	10 1/2	9 1/2	9 5/16	13	9 3/4	12 1/4	11 5/16	12 5/16	11.91
February	12 3/4	8 1/4	10 5/16	10 5/16	9 3/8	10	13 1/2	11 7/16	11 1/16	11 1/2	11 1/2	11.59
March	11 5/16	8 7/16	10 1/2	10 1/2	9 3/4	10	13 3/4	11 1/2	12 1/4	11 1/2	12 1/2	11.00
April	11 7/16	8 1/2	11 5/16	10 3/8	10 1/2	10 11/16	14 3/8	12 1/2	12 1/2	11 1/2	13 3/8	10.80
May	10 11/16	9 3/8	11 1/2	10 3/8	11 7/16	10 3/8	14	12 1/2	11 7/16	11 1/2	.....	10.64
June	9 1/2	10	11 3/8	10 1/2	12 3/8	11	14 1/4	12 7/16	11 5/16	11	.....	11.05
July	9	10 1/2	11 5/16	10 3/8	11 1/2	11 7/16	14 11/16	12 1/2	12 1/16	10 3/8	.....	11.45
August	8 3/4	10 11/16	11 3/8	10 1/2	11 1/4	11 1/2	15 1/2	12 3/8	12	10 3/8	.....	12.25
Average for season	12.14	9.50	11.02	10.97	10.39	10.30	13.51	12.23	12.08	11.00	12.00	11.75

Months.	1881–82	1882–83	1883–84	1884–85	1885–86	1886–87	1887–88	1888–89	1889–90	1890–91	1891–92
September	12.22	12.40	10.37	10.56	10.06	9.33	9.81	10.45	11.28	10.54	8.61
October	11.61	11.12	10.61	9.95	9.86	9.33	9.51	9.86	10.61	10.28	8.51
November	11.81	10.48	10.51	10.19	9.41	9.17	10.20	9.93	10.26	9.60	8.16
December	11.97	10.33	10.45	10.95	9.28	9.47	10.55	9.81	10.27	9.39	7.94
January	11.94	10.17	10.66	11.12	9.25	9.50	10.53	9.87	10.59	9.37	7.55
February	11.77	10.22	10.75	11.19	9.08	9.50	10.61	10.05	11.19	9.17	7.25
March	11.99	10.16	11.04	11.31	9.11	10.00	10.15	10.18	11.41	8.99	6.87
April	12.18	10.17	11.80	11.02	9.25	10.58	9.87	10.63	11.76	8.94	7.11
May	12.20	10.85	11.64	10.89	9.24	11.00	10.00	11.10	12.20	8.90	7.32
June	12.28	10.53	11.36	10.78	9.21	11.16	10.16	11.08	12.14	8.51	7.58
July	12.78	10.09	11.03	10.33	9.50	10.58	10.55	11.23	12.11	8.25	.....
August	12.97	10.14	10.88	10.41	9.40	9.85	11.02	11.39	11.81	8.10	.....
Average for season	12.25	11.50	11.00	10.62½	9.50	10.31½	10.37½	10.62½	11.50	9.43¾	7.69

[1] Nominal.

1884–85, December 1.39 cents above September; 1854–55, December 1 cent below September; 1885–86, October 0.20 cent below September; 1855–56, October 1 cent below September; 1887–88, December above November 0.35 cent; 1857–58, December below November 2 cents.

But there is other overwhelming evidence of the advantage which has resulted from future-delivery transactions. I affirm that the certain effect of futures has been to relieve the American producer from the grasp of the British spinner; has been to decrease the shipping margin between the New York and Liverpool markets, thus to that extent assisting the producer. I hold in my hand a comparative statement as to the values of middling and upland cotton in Liverpool and New York at the times of the lowest prices in New York in 1844, 1845, 1848, and the lowest price in 1892—making allowance for the difference in freight charges and the equivalent for the delay in time. I submit the table to be published in connection with my remarks:

Comparative values of middling upland cotton in Liverpool and New York, at the times of lowest prices in New York in the years 1844, 1845, 1848, and 1892, making allowance for difference in freight charges and an average mail date equivalent of 35 days later than Liverpool date for the New York date. Exchange, 4.85.

Date.	Liverpool price.	Freight.	Liverpool price, freight paid.	Equal American money.	New York price.	Difference or shipping margin.
	Pence.	*Pence.*	*Pence.*	*Cents.*	*Cents.*	*Cents.*
Nov. 25, 1844	3⅞	⅛	3¾	7 1/16	5 1/16	1 7/8
Feb. 7, 1845	3½	⅛	3⅜	7 1/16	5 1/16	1½
Apr. 7, 1848	4⅛	1/16	4 1/16	8	5⅛	2⅞
Mar. 3, 1892	3¾	1/16	3 11/16	7 1/16	7 1/16	

This statement is remarkable in two respects:

1. The enormous margin required in the past by the cotton merchant to protect himself against a decline, as compared with the present, when he can protect himself by selling for future delivery.
2. The wide fluctuation in that margin, ranging from 1½ cents to 2⅞ cents, showing the lack of stability in values.

It is also a well-known fact in the cotton trade that during the years of low prices cited cotton in the southern ports sold for less than 4 cents per pound, while now, with the same or lower range of prices current in Europe, it is bringing 6 cents per pound in the South.

These figures show that on November 25, 1844, cotton in Liverpool was 3⅞ pence. The freight was three-eighths pence. The Liverpool price, freight paid, was 3¾ pence, the equal in American money of 7 1/16 cents. The New York price was 5 1/16 cents, leaving a shipping margin of 1⅞ cents. Now, go to February, 1848; the shipping margin is 1½ cents; in April, 1848, it is 2⅛ cents. These facts show that there existed between the Liverpool price of cotton at that time and the price of cotton here this large margin.

What did that come from? It came from the fact that the American producer was at the mercy of the British spinner. His cotton came into the market. Our mills could not consume it. Here was this large surplus, representing at least 70 per cent of the crop, and the margin between America and Liverpool was an average of nearly 2 cents during those years.

It may be said, "But you have picked out years; you have selected 1844 and 1845 and 1848." In order to meet that criticism I have had a table prepared, showing the shipping margin between Liverpool and New York in 1884–85, 1885–86, 1886–87, as the period of futures, down to 1890–91, with a comparison from 1854 to 1861—the nonfuture period.

What does this comparison show? Let us see. The shipping margin in 1854–55 was 1.36 cents; in 1884–85 it was 1 cent; in 1855–56 it was 1.70 cents, while in 1885–86 it was 0.87 of a cent; in 1856–57 it was 1½ cents against 0.81 of a cent in 1886–87; in 1857–58 it was 3.14 cents against one-half of a cent in 1887–88; in 1858–59 it was 1.92 cents against 1¼ cents in 1888–89; in 1859–60 it was 2.37 cents against 0.87 of a cent in 1889–90; in 1860–61 it was 1¾ cents against 0.93 of a cent in 1890–91. The average shipping margin of the seven years 1854 to 1861 was 1.96 cents per pound against an average of 0.89 of a cent for the seven years 1884 to 1891 of the futures period. I submit the table as a part of my remarks.

Table showing the shipping margin between New York and Liverpool for middling cotton for each season, 1854–55 to 1860–61 (which is as far back as we have reliable data) and 1884–85 (we begin the period of comparison at 1884–85 in order to avoid the fluctuations of gold) and 1890–91.

Season of—	Liverpool average price for season.	Equivalent in United States money.	New York average price for season.	Shipping margin.	Season of—	Liverpool average price for season.	Equivalent in United States money.	New York average price for season.	Shipping margin.
	Pence.	*Cents.*	*Cents.*	*Cents.*		*Pence.*	*Cents.*	*Cents.*	*Cents.*
1884–85	5 1/16	11.62	10.62	1.00	1854–55	5⅞	11.75	10.39	1.36
1885–86	5 1/16	10.37	9.50	.87	1855–56	6	12.00	10.30	1.70
1886–87	5 1/16	11.12	10.31	.81	1856–57	7½	15.00	13.50	1.50
1887–88	5 1/16	10.87	10.37	.50	1857–58	7 1/16	15.37	12.23	3.14
1888–89	5 1/16	11.87	10.62	1.25	1858–59	7	14.00	12.08	1.92
1889–90	6 1/16	12.37	11.50	.87	1859–60	6 1/16	13.37	11.00	2.37
1890–91	5 1/16	10.37	9.44	.93	1860–61	7⅛	13.75	12.00	1.75

Average shipping margin of the seven years 1884 to 1891 is 0.89 of a cent, and of the seven years 1854 to 861, 1.96 cents per pound.

What do these margins represent? This enormous average difference of over a cent a pound on the shipping margin during the years compared was caused by the fact that the cotton was held during the future period from pressing on the market by the effect of the future-delivery system, and therefore the glut produced nothing like the damaging effect that it did before that period. Here was a difference in shipping margin of over a cent. Whom was it made by? Of course it was made by the American producer. I resume the showing. If the average price depends upon the volume of crop without reference to futures, if the range of fluctuations during the period before futures was greater than in the periods of futures, if the fluctuations month by month before the future period were much greater than they are in the future period, if before the future period there was a large shipping margin between Liverpool and this country and that margin has diminished considerably—if these facts be true, I ask, Do not they absolutely confirm every proposition I have advanced, and do they not justify the universal consensus of the commercial world that dealings in futures helps to maintain the price, and therefore helps the producer?

I come now to the question which my friend, the distinguished Senator from Mississippi [Mr. George], put to me, and that involves the discussion of another portion of the bill. I say this bill is a delusion. I say under this bill contracts for future delivery can not be practically made until commercial men devise expedients and mechanism to frustrate the law and to overcome it, and why? The provision of the bill is that the planter may sell for future delivery either the crop he has made or the crop he proposes to make.

Mr. GEORGE. Not proposed, but having in process.

Mr. WHITE. Well, that does not change the logical proposition. I did not intend to state it with inaccuracy. I do not think that affects the situation. Let us see how the future business is conducted. In the first place, the question which the Senator from South Carolina [Mr. Butler] asked me is perfectly true. A large part of the cotton which came early to market had probably been already sold before it got there. Sold how? Sold under the future system. The result of the future system has been to break up great buyers, and now all over the southern country everywhere in every county wherever cotton can be sold there is found a cotton buyer. A buyer for whom? A buyer for himself. The telegraph goes everywhere. The buyer is communicating with spinners. The spinners do not buy average lots of cotton. They buy particular kinds of cotton.

There is no farmer who can sell a particular kind of cotton. A crop of cotton is diversified and composed of divers grades. The spinner wants a certain kind of cotton. The buyer telegraphs him: "I will deliver you such a grade of cotton," say a thousand bales or 500 bales. He has not got it. There is not one planter who could give it to him. He sells it on the faith of his credit and faith in his ability to obtain the grades required. The spinner believes in him; he knows him. That man, in order to protect himself from loss, the moment the spinner says he accepts, telegraphs to a market and buys futures as a hedge against his sale to the spinner. Cotton as sold for futures does not cover a particular grade, but an average lot of cotton.

All that is below a certain grade is not admitted, and no lot of cotton is of a uniform grade. The moment he buys actual cotton he picks out of that lot of cotton the bales which correspond to what he has sold the spinner and disposes of futures to that extent. If compelled to buy another lot in order to complete his sale to the spinner, he sells more of his futures, and so he goes on and goes on until he has made up his lot to deliver to the spinner's order, and also disposes of his futures. I ask the Senator from Mississippi [Mr. George] where is the farmer who can do that? Where is the crop of the farmer that is going to supply that want and carry out such a transaction, which is a typical representation of the contract by which the producer's cotton passes to the consumer?

Mr. GEORGE. Do you want an answer now?

Mr. WHITE. Certainly; I should be very glad to have an answer.

Mr. GEORGE. My answer is that the farmer can not do it and it can not be done under the form of the future contract adopted by the Cotton Exchange of New Orleans and the Cotton Exchange of New York, in both of which, whilst a man purchased the contracts for middling cotton, the seller may deliver him any kind of 7 full grades, 14 grades of cotton, and no manufacturer can ever supply himself under the future system as regulated in New Orleans and New York.

Mr. WHITE. Let me answer the Senator. He evidently has not understood my position. Let me state an elementary commercial transaction: A is a spinner. B is a buyer. A, the spinner, says to B, the buyer, "I want a thousand bales of long-staple cotton." That is not a transaction made under the rules of any exchange. B, the buyer, says, "Very well; I will deliver to you a thousand bales of long-staple cotton."

Here a contract has been engendered between A, the buyer, and B, the seller, to deliver a thousand bales of long-staple cotton. The seller has not got the cotton. He has got to get it. What does the spinner do in order to protect himself against loss? He has sold his goods. He knows the price he is going to have to pay for his cotton. He immediately proceeds to sell his goods for future delivery predicated upon the price at which he has agreed to pay for this cotton.

What does the seller do? It is an ordinary contract under the rules of no exchange. Then that seller buys a lot of cotton for future delivery—deliverable to him two months ahead. He knows the price at which he has bought it and at which he has sold. His whole object in doing this is to get a lot of cotton so as to make up this lot which he has agreed to deliver. Covered by his two contracts, one of sale and the other of purchase, he looks about in the country, picks up the grade he has sold to the spinner, and as fast as he does this he sells out his futures. He may make 20 or 30 future transactions before completing this entire business. He could not do this without futures. How could he do it without suffering the risk of a decline? He insures himself against a decline. The spinner insures himself against an advance. Everybody in the transaction is insured.

Mr. GEORGE. Except the planter.

Mr. WHITE. The planter sells and gets his money.

Mr. GEORGE. He sells on futures.

Mr. WHITE. And I have shown he gets a more regular and a better and less fluctuating price than he got before the future system came in. That is the answer to it.

Mr. President, it is one of my great objections to this bill that whilst it holds out a delusive hope that the planter can personally dispose of his cotton by futures, he practically can not by the restrictions created by this bill. The whole cotton country is changing its form. Cotton used to be made in large fields, with one owner and class labor. Now it is getting subdivided, and small holdings are coming in.

I have here a statement taken from the preceding census—I could not get it from the last—showing that two-fifths of the farms in the southern country are now small holdings, and the system is increasing. Take my own State. We have an alluvial country with large planters and we have a hill country with small planters making a small number of bales each. Anybody who is familiar with cotton coming to the New Orleans market knows that in one invoice there will be 20, 30, 40, and 50 marks of cotton, all shipped by one, but belonging to different people. Small planters ship 1 and 2 bales at a time.

The provisions of this bill allowing the sale of futures by the planter strikes a blow at the small farmer in the hills of my State, because whilst it gives them the privilege to sell futures under the laws of trade, they will not be able to avail themselves of it, whilst the man who makes a large crop and has a large assortment of cotton will find himself a favored person as compared with the small cotton producer. I stand for the small cotton producer; I stand for the farmer in my State who can not avail himself of the provisions of this bill because he does not make a lot of cotton which he could sell to advantage. The effect of this bill will be to allow the man only who has a large amount of cotton to sell it under the bill.

Mr. President, the figures are so clear to my mind that I have searched them in in vain for an answer. I think they are an absolute demonstration of the truth of the proposition which I hold, and until the figures are answered discussion of the theory of the situation is without avail. I say, with these figures staring me in the face, I dare not vote for this bill. The cotton crop from the southern country is now coming in. I saw in the Financial Chronicle the other day a statement that there are nearly a million bales on the continent. There are fifteen hundred thousand bales of cotton in Liverpool, and considerable spot cotton in this country, much probably held under future contracts and thus stretched over to the next year. The same day my attention was called by a newspaper to the fact of the arrival of the first bale of the new crop in New Orleans.

I do not desire to prophesy evil as to the future. I know that no act of any legislative body can break up a great commercial system and render it nugatory. The laws of the world, the laws of commerce, are higher and stronger than any legislative system, and they adapt themselves with marvelous rapidity to any wrong restrictions which may be put upon them. Yet the process of adaptation is one of pain and one of travail and one of labor. Pass this bill, strike down this system in the presence of a large amount of spot cotton now in stock, and, with a new crop coming, my judgment is that this bill will cause confusion. By the disarrangement and the turmoil which it will probably make in the commercial methods of the whole world, the loss to the people of the cotton States will likely not be less than fifty or sixty million dollars for the ensuing year.

Suppose we do pass the bill and strike the present business methods down, what good is it going to do? Is there not a cotton exchange where futures are dealt in at Liverpool? Are they not on the Continent of Europe? Did not just a few days ago a gentleman send me the charter of the organization of a great exchange in the city of Hamburg for the purpose of conducting this business of futures in cotton? Did he not send me a letter from a German merchant saying that they had noticed the intention to strike down the business here, and they hoped it would come to them?

Is there not a cotton exchange at Alexandria, in Egypt? Does not both the Egyptian and the Indian crop move under the operation of laws of future delivery? Without that system I have shown that the disparity between the American price and English prices is large. With the system I have demonstrated that the disparity diminished until there has been an average gain to the producers of this country of over a cent a pound. I am unwilling by my vote here to transfer this vast sum of money out of the pockets of the people of the cotton States into the pockets of the people of Great Britain.

(Whereupon, at 1.25 o'clock p. m., the subcommittee adjourned to meet at the call of the chairman.)

TO AMEND SECTION 5 OF THE COTTON FUTURES ACT AND TO PREVENT THE SALE OF COTTON AND GRAIN IN FUTURE MARKETS.

SATURDAY, MARCH 25, 1922.

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D. C.

The subcommittee met, pursuant to call, at 10 o'clock a. m., in the Senate Office Building, Senator Henry W. Keyes presiding.

Present: Senators Keyes (chairman), Norbeck, and Smith.

(The Chairman placed before the Committee the following bill.)

[S. 2231, Sixty-seventh Congress, first session.]

A BILL To amend the United States cotton futures act by inserting therein a new section for American Egyptian cotton only, to be known as section 5a.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the United States cotton futures act, approved August 11, 1916 (Thirty-ninth United States Statutes at Large, page 476), as amended March 4, 1919 (Fortieth United States Statutes at Large, page 1351), is hereby amended by inserting therein a new section for American Egyptian cotton only, as follows:

"SEC. 5a. That no tax shall be levied under this act on any contract of sale mentioned in section 3 hereof if the contract comply with each of the following conditions:

"First. Conform to the requirements of section 4 of, and the rules and regulations made pursuant to, this act.

"Second. Specify the basis grade for the cotton involved in the contract, which shall be one of the grades of American Egyptian cotton for which standards are established by the Secretary of Agriculture, the price per pound at which the cotton of such basis grade is contracted to be bought or sold, the date when the purchase or sale was made, and the month or months in which the contract is to be fulfilled or settled: *Provided*, That grade three shall be deemed the basis grade incorporated into the contract if no other grade be specified either in the contract or in the memorandum evidencing the same.

"Third. Provide that the cotton dealt with therein or delivered thereunder shall be of or within three grades of American Egyptian cotton for which standards are established by the Secretary of Agriculture.

"Fourth. Provide that in case cotton of grade other than the basis grade be tendered or delivered in settlement of such contract, the differences above or below the contract price which the receiver shall pay for such grades other than the basis grade shall be the actual commercial differences, determined as hereinafter provided, except that the official cotton standards of the United States for American Egyptian cotton shall be used for the purposes of this section, and where middling cotton is mentioned in section 8 of this act grade three of the grades of American Egyptian cotton shall be substituted for the purposes of this section only.

"Fifth. Provide that cotton that, because of the presence of extraneous matter of any character or irregularities or defects, is reduced in value below that of grade five, or cotton that is below the grade of grade five, the grades mentioned being of the official cotton standards of the United States for American Egyptian cotton, or cotton that is less than one and seven-sixteenths of an inch in length of staple, or cotton of perished staple or of immature staple, or cotton that is 'gin cut' or reginned, or cotton that is 'repacked' or 'false paked' or 'mixed packed' or 'water packed,' shall not be delivered on, under, or in settlement of such contract.

"Sixth. Provide that all tenders of cotton under such contract shall be the full number of bales involved therein, except that such variations of the number of bales may be permitted as is necessary to bring the total weight of the cotton tendered within the provisions of the contract as to weight; that, on the fifth business day prior to delivery, the person making the tender shall give to the person receiving the same written notice of the date of delivery, and that, on or prior to the date so fixed

for delivery, and in advance of final settlement of the contract, the person making the tender shall furnish to the person receiving the same a written notice or certificate stating the grade of each individual bale to be delivered and, by means of marks or numbers, identifying each bale with its grade.

"Seventh. Provide that all tenders of cotton and settlements therefor under such contract shall be in accordance with the classification thereof made under the regulations of the Secretary of Agriculture by such officer or officers of the Government as shall be designated for the purpose, and the costs of such classification shall be fixed assessed, collected, and paid as provided in such regulations. All moneys collected as such costs may be used as a revolving fund for carrying out the purposes of this subdivision, and section 19 of this act is amended accordingly.

"The provisions of the third, fourth, fifth, sixth, and seventh subdivisions of this section shall be deemed fully incorporated into any such contract if there be written or printed thereon, or on the memorandum evidencing the same, at or prior to the time the same is signed, the phrase 'Subject to United States cotton futures act, section 5A.'

"The Secretary of Agriculture is authorized to prescribe regulations for carrying out the purposes of the seventh subdivision of this section, and the certificates of the officers of the Government as to the classification of any cotton for the purposes of said subdivision shall be accepted in the courts of the United States in all suits between the parties to such contract, or their privies, as prima facie evidence of the true classification of the cotton involved."

Senator KEYES. I understand that you, Senator Caraway, desire to make some further statement in regard to your bill.

FURTHER STATEMENT OF SENATOR T. H. CARAWAY, OF ARKANSAS.

Senator CARAWAY. I desire to make a short statement, Mr. Chairman. Senator Smith told me he was going to join me here, and I was coming largely because he was going to come.

Senator KEYES. I suppose that he is coming. I understood that he would be here.

Senator CARAWAY. I had presented practically all I care to say.

Senator KEYES. As I recall it, you made a statement at our first hearing, on January 20.

Senator CARAWAY. I did.

Properly, I think the chairman objected to my examining Mr. Norman about a statement he was making. Immediately afterwards, however, I saw Senator Ransdell put in the record a statement that cotton, when the future markets were closed in 1914, went from 12 cents to 6 cents, leaving the inference that both of them thought that the closing of the exchanges had that depressing effect on cotton. Senator Ransdell immediately took the witness without permitting him to make a statement, and then led him to this statement, on page 17 of the printed record:

"It might have gone to 6 cents a pound, the same price that it went to after the cotton exchanges were closed in 1914."

It strikes me as utterly useless to call attention to the fact that the war broke out the 1st of August, 1914, and that shipping was all driven off of the seas. I was particularly interested in cotton myself at that time. Not only was I growing cotton but I was ginning cotton and selling cotton, and the market went all to pieces because there was not any possibility of sending a bale of cotton across the seas and no one knew when the cotton would be shipped; and the exchanges were closed simply to protect the people who had contracts in the exchange, and not because it affected the price of cotton one way or the other; but people who had bought or sold cotton realized that they could not resell their contracts, and in the interest of the gambler, pure and simple, they closed the exchanges so that he could not be ruined by the driving down of prices. It was just like a corner.

Now, I don't know whether you, Senator Keyes, are much interested in a matter that has been under investigation in New York City, namely, the American Exchange, which is not the same thing as the cotton exchange, but it was operated in exactly the same way.

Senator KEYES. The American Exchange deal in cotton?

Senator CARAWAY. That is all they dealt in.

Senator KEYES. So I understood.

Senator CARAWAY. It dealt in cotton. I had quite a number of newspaper clippings, but somebody in cleaning up my office threw them away. It was conceded by everybody that they influenced the price of cotton, and the judge presiding was very much concerned because it transpired that they were not dealing in actual

products; that they were simply selling something that did not exist. There was no difference whatever between trading on the American Exchange and the cotton exchange. It was simply a rival institution, and it may be said of the cotton exchange, if there is any credit due it, that it brought about the proceedings that closed the American Exchange as a rival institution. I think it is a good thing it closed it. They sold practically 50,000,000 bales of cotton, as I now recall, and never handled a bale.

The cotton exchange sold something over 100,000,000 bales and did not have a bale. That seems to be largely the difference between the two exchanges.

Senator KEYES. That is covering what period?

Senator CARAWAY. Last year.

Senator DIAL. On the New York Exchange, Senator Caraway, 120,000,000.

Senator CARAWAY. The American Exchange I was discussing, Senator Dial, a rival institution, doing exactly the same kind of business, trading in the same kind of contracts, except on the cotton exchange the unit is 100 bales, but the American Exchange, in order to reach the smaller fellow, permitted them to buy 10, which took in the small fellow in the office and did not limit it to the head of an institution.

Senator NORBECK. That was the main difference in the two?

Senator CARAWAY. All the difference. But it is conceded, and it is claimed, even by the cotton exchange, that the American Exchange was able to affect the cotton exchange; therefore it introduced a disturbing element into their business. The American Exchange could raid the market and raid it without knowledge of the cotton exchange, making it an uncertain gambling condition there, and so, just like one gambling house objects to another, they put the American Exchange out of business.

Now, I notice here Mr. Norman, to whom I was referring a moment ago, was detailing his manner of hedging. I shall not repeat the testimony. It appears on page 18. He said if he should buy 10,000 bales, we will say, of July cotton, and in July he did not require the spots, he would sell his July hedge and buy an October hedge, and so on, alleging that he had 10,000 bales of cotton. Well, now, if the exchange operated that way no one would object to it. I want merely to repeat the former statement that I made, that if a man has cotton I don't object to his selling it for future delivery, and the man who buys that contract from him, with the right to have 10,000 bales, and based on 10,000 bales of cotton actually in existence, may sell it to anybody else he pleases, so long as there is 10,000 bales of cotton back of his contract. I would go further than that. If a man is expecting, honestly, to produce 10,000 bales of cotton—has the land on which to grow it—I should not object to his selling what he reasonably believes he is to produce. I would not object to the man who buys from him, based upon the same contract, selling to some one else, so long as there was always back of each contract either the cotton actually in existence or in process of being grown, so that no more bales of cotton may be sold than actually exist or are in honest expectation of being produced.

The laws of many States—I know the laws of my own do—permit one to mortgage a crop even before it is planted. He may execute a chattel mortgage on a cotton crop that he is going to grow, and the court has said that it is a valid lien, not because the property was in existence at the time of the execution of the contract, but because it was in expectation.

The bill I introduce does that thing. It permits anybody to sell what he has either for immediate or future delivery, or to sell what he has a reasonable right to expect he will produce, for future delivery. The spinner would get just exactly the same power of hedging then that he has now, and all the elements of uncertainty and gambling would be cut out. I think that the man who is going to spin cotton in New England and sell the cloth next year ought to be permitted to make a contract now for his cotton next October, so that he may know on what basis to figure the sale of his cloth for future delivery. Therefore I would not object to his going into the market and buying from people who either have cotton or expect to have cotton, a contract that guarantees him absolutely as many bales as he wants to be delivered in October, November, December, January, or February of next year, so that he might know of a certainty what the raw material is to cost him, out of which the cloth is to be spun. He ought to have that right.

But I would prevent somebody who does not produce or does not spin from going in and disturbing the market by selling millions of bales of cotton that never did exist or never will exist. It disturbs the market, and I have seen it send the price down over and over again, and every raid—I don't care what they tell us about one raid will displace another; one raid is down and another raid is up, and in the long run the price will be the same—even if that is true it does no good, because the man who produces the cotton must sell from day to day on the market as it exists. I have stood at the opening of a cotton market and seen them break the price of cotton $10 a bale in a little

town down in my State in 10 minutes. That would be the extreme limit. But I have seen it frequently go up two, three, and four dollars a bale. I have seen a difference of $4 and $5 a bale in five minutes after the news of the opening of the cotton market reaches us. A raid the other way the next day may raise it, and the gamblers may break even, but the small producer of cotton is compelled to sell it. He can not wait for the rising market to-morrow.

Any system that can drive a product up and down without any reference to its real intrinsic worth is a false system and one that can have no proper place in the economics of any people.

As I said, there is not any use for me to combat a theorist. I have never had any patience and never tried to go out and combat a theorist. I have never seen a time in my life when you could not get somebody with a theory to take any side of any question there was, just like an expert witness. I have never seen a man in such desperate straits, charged with crime, that he could not find somebody that was entirely reputable and respectable in his standing to come in and swear, under some theory of the case, he ought to be excused. I was prosecuting attorney in my district at one time, and one of the most prosperous—I won't say that, but one of the most active—lawyers in the district was indicted for forgery. It turned out that he had forged people's names to notes and then reforged them, and it covered a period of three years. All of that time he had been an active practitioner. A Doctor Green was the superintendent of an institution for nervous diseases, the insane asylum, therefore an expert on mental troubles. He came in and without turning a hair swore not only that this lawyer was at the present time crazy and did not know the difference between right and wrong, and had been so for three years, but he went on with a very learned discourse on the actions of crazy people; that they had more sense when they were crazy than they had before, because this man had a better practice than he ever had had, and therefore he had to show that going crazy actually improved him as a lawyer.

Senator NORBECK. Were you able to convict him?

Senator CARAWAY. No. There was one fellow on the jury that thought the doctor might know what he was swearing about.

But those are mere illustrations. You can find theorists and people who love a theory better than they do a fact. They will sit all day, if they have an audience, on a box in front of a store and expound theories of government and finance and religion and anything else that happens to enter their minds, and usually everything is in the mind of a theorist; and you can find these market theorists in the Government employ and out of it that will ignore a fact or, not ignoring it, will try to account for it by some theory that does not strike anybody with any force. I know, because I have been a producer of cotton all my life. I will repeat what I said before. When I was seven years old I went into the field and worked. I was a day laborer, worked by the month, have been a share cropper, have rented lands, and now I am an owner of lands. I have grown cotton and sold cotton. I have sold it on the platform; I have sold it through the commission merchants. I have sold it practically in every way that a man could sell it. I have become thoroughly convinced from experience, and I am as sure of it as I am of anything that exists, that there never will be any profit year in and year out in the growing of cotton as long as men may sit in New York or New Orleans and sell the product over and over again, year in and year out, whether it exists or does not exist. I think I said once, and I want to repeat it, that a man right now, if you want him to, will sell you more cotton than there is in the world.

Senator KEYES. Will you suspend for a moment?

Senator CARAWAY. Yes.

(The hearing was suspended for a short period.)

Senator CARAWAY. Mr. Chairman, I started to tell you this: One may go on the exchange now and buy for delivery next fall—I will just say that he could buy 50,000 bales, if he wanted to do it, if he had the price. There is not a stalk of cotton planted. Nobody knows how many acres will be planted, because that is subject to all the changes of the elements, and after it is planted nobody knows within 5,000,000 bales how many bales will be grown, because it is subject to every hazard; the boll weevil may wipe it all out, or practically all out. They may have 17,000,000 bales or they may have 6,000,000 bales, but everybody does know there won't be a 50,000,000-bale crop; there never was and never will be. It is physically impossible. This is true. The man that will sell you a product that does not exist, that he knows never will exist, and that he can not deliver, is either one of three things. He is either a fool, a crook, or else he knows how to manipulate the price when delivery time comes so that he may settle upon differences and make money. A plain idiot might do it because he would not realize what he is going to do. A crook might do it because he might

say, "I will get his money now, and when delivery time comes I will not be here." Excluding those two classes, because I don't intend to apply either one of those terms to dealers in futures, because I realize as long as the law will permit it, perfectly honorable men will engage in the business, and I do not have any criticism of them for it. There are just as good men in the exchanges as any other place. But the other alternative, then, becomes absolutely certain. Any intelligent man, man of honor, man of means who is responsible for his contracts, who will enter into a contract to sell me for future delivery a product that does not exist, that he knows never will exist, and therefore that he can not fulfill his contract, but must settle with me upon differences, must have some means of controlling that contract or the price, or else he will go out of business.

Down in my country it used to be a more or less common thing for some fellow who did not want to work to open a poker game in the back room of some building or upstairs over some kind of business, and people came in there and played in this game. He had a little box that they called a kitty. Everybody contributed to that, so he had a certain safe margin. But everybody knows he could not have rented the room and paid the light and heat bills and maintained himself unless he had some way in which he could have the better of the game.

Now, these men could not pay fabulous prices for seats on exchanges and grow rich out of it unless there was some way to control the market. If it was a question of chance, Chance is a blind goddess, and it would break anybody eventually, because they have that enormous overhead charge. Therefore, I don't care what your theorists tell me, I know there is some way to manipulate the market so that they will have the better end of the contract, or they could not carry the extremely heavy overhead charges incident to their business and grow rich out of it. Even if we only allow them to make what they could, I then could carry that and not perish, but in breaking the market there are thousands of parasites all the way down who live on it, and the very man who buys my cotton takes into consideration these raids on the market, and he strips the price accordingly. So that it is multiplied a thousand per cent and you see it, regardless of what the report of the bureau showed this last year, as I now recall it, except one time.

After each report the market broke, although the cotton estimate started in with a 10,000,000 or 11,000,000 bale crop and ran down to six million and something. It broke each time except one, as I now recall it, after each report, although each report was lower than the one preceding, and necessarily we ought to have expected the price to go up. It broke for this reason. There are a whole lot of fools in this world besides those who are in places for feeble-minded people, and they imagine that the report is going to show a lesser number of bales than the previous one, from the fact that is clear to everybody that there was a falling off in the cotton production; the boll weevil was destroying the crop, and they got in each time just before the report, hoping that there would be a rise, and they would get in on it, and the folks on the inside broke the market each time.

I have a brother who grows cotton. About every other year he is almost financially ruined. Just now he happens to be clear down and out. He is a member of the Baptist Church, and I think as good a citizen as anybody in this country. He and, I believe, four other members of his same little church decided they were going to raid the cotton market, and they bought up a hundred bales apiece and went to Memphis with $500, and that night all of them walked home. They were wiped out in a day. I was glad of it, because every man to his trade. As foolish as some folks think the Negro is, whose head is not as big as your fist, if you would let him come here he could break every Senator in Washington in a crap game before night, because he understands the art of his peculiar calling, and it is wise to let him alone.

He is an artist in his own line, just as these cotton men are. It comes down to this, Mr. Chairman: Is it wise to let these men who trade in the New York and New Orleans Cotton Exchanges and make money—and, as I said, I am not falling out with them as long as it is lawful, because it ought not to be considered dishonorable if it is lawful. So long as Congress licenses those callings, I would not want to say that the Congress licenses a dishonorable calling, and honorable men are in it; but is it wise to maintain these exchanges and destroy a basic industry that affects possibly 20,000,000 people in the South and almost as many who spin cotton in the North?

They raid us both backwards and forwards.

This man Norman, whom we referred to a moment ago, seemed to think it was a perfect privilege to pay a premium on a future contract, and, as I inferred, he thought it did not cost anybody anything; but you could pay out thousands of dollars for what he called insurance and you would not collect it off of the man who produced the cotton or you would not pass it off on the man who bought the cotton. It just disappeared in the process of trade. Now, any theorist can demonstrate that. I have

never found a man yet with a theory who, if you would just let him have time, could not solve all the ills to which flesh is heir. Jacob Coxey, if you would give him a printing press and power to use it, would banish poverty from the earth before night; and I think he honestly believes he could do it. There are men of that kind all over the earth, with theories, and if you will just let them develop a theory they become intoxicated with their own logic and sometimes are able to intoxicate everybody around them.

Trotski and Lenin had a theory that they could prosper without money and without anybody owning anything, and nobody being responsible to anybody else; every fellow was just going to be responsible to himself; and they wrecked 180,000,000 people, and starvation now threatens 10,000,000 or 15,000,000 of them. It is a misfortune that comes from putting a theorist in control of government. I doubt not Trotski and Lenin were absolutely honest in their theories, and I am persuaded that both of them are men of a great deal of information; they would be called men of broad information. And there are plenty of good men of broad information that are trading in cotton, some of them from purely selfish interests, and some of them because they are honestly convinced it is proper. But at least we may say this, that they have had 50 years in which they could develop their theories, and in 50 years they have ruined every grower of cotton three or four times over, and it is time to try a new experiment, if it is an experiment, and I sincerely hope we may get a report and get it on the floor and get a chance to present it to the Senate.

I just want to say this much about the bill I introduced. I have stricken from it grain. I am perfectly willing that the grain grower should be his own judge about his market machinery. I know absolutely nothing about it. I have no theory to propound. I have no desire to thrust my views into that field of discussion.

Senator KEYES. You have already asked that that be stricken out?

Senator CARAWAY. I made that statement because of something that was said to me by Senator Norbeck.

I prefer to use the power to control communications rather than taxation, because if we use taxation, or if we employ the theory of taxation, we employ a power of the Government which is intended to raise revenue, in order to suppress certain activities of the people, and I don't like to do it. I do not like to do it for this reason: Taxation can only reach exchanges in this country. Under the bill I have introduced, which undertakes to control the transmission of information, we are just as able to protect ourselves against manipulations in Liverpool or Bremen or any other cotton exchange whether in the United States or abroad, as if it were located right here in the District of Columbia, and it is more flexible. We can absolutely permit the delivery of any communication in accordance with law without any hindrance at all, and reach the man always if he violates it, because we have got absolute check on it.

I think that is all.

Senator KEYES. We are much obliged to you, Senator, for your statement.

Now, I understand Mr. Morrill is here, from the Department of Agriculture.

STATEMENT OF MR. CHESTER MORRILL, ASSISTANT TO THE SECRETARY, UNITED STATES DEPARTMENT OF AGRICULTURE.

Senator KEYES. Mr. Morrill, we have several bills before this committee. I assume that you know what bills they are. There is one by Senator Dial and one by Senator Caraway, and we have recently had one introduced by Senator Shortridge. And, by the way, the original Dial bill has been withdrawn and a substitute has been submitted in place of it. We have to-day received S. 2231, introduced by Senator Shortridge, covering long staple Egyptian cotton.

Mr. MORRILL. Yes, sir.

Senator KEYES. You, then, know the bills that are before us?

Mr. MORRILL. Yes, sir.

Senator KEYES. Now, if you can give us any suggestions from your own experience in cotton matters that will be helpful to us in regard to this legislation we would be would be very glad to have you do it.

Mr. MORRILL. Will you indicate the order in which you wanted me to take up these matters? I have not participated in the discussions heretofore.

Senator KEYES. No; I know you have not. It has been pretty general, Mr. Morrill, heretofore. I think you can take it up in your own way, and give us the benefit of any criticisms of the bills before us, or any suggestions you may have looking toward a change in the present law covering the marketing of cotton. I understand that you have recently been abroad making some investigations over there in regard to their cotton and cotton marketing.

Mr. MORRILL. My trip abroad was in June and July of last year, and of course any observations that I made of marketing conditions at that time would be subject to the qualification that conditions have changed a great deal since that time.

I went over to Europe with Mr. W. R. Meadows, who was acting in charge of the cotton division of the Bureau of Markets at that time, primarily for the purpose of attending the World's Cotton Conference and taking up at the World's Cotton Conference the movement to secure an agreement upon a single set of cotton standards for use throughout the world as applied to American cotton. That is a subject that is not dealt with in any of these pending bills that you have here before you, but we have the condition of affairs that the Liverpool Cotton Association, under the auspices of which the Liverpool Cotton Exchange is operated, has a set of standards which differs in some respects from the American standards and differs in terminology, and the result is that the export trade of this country is done on two sets of standards—the American standard within this country, and to some extent in direct transactions with foreign buyers, and the Liverpool standards, according to the agreement of the parties in the particular instance, and where they use the Liverpool standards it is subject to arbitration by arbitrators selecte by the Liverpool Cotton Exchange, who are all Englishmen and who do not in any respect represent American interests, and we have had the hope that a condition of affairs would be brought about by which a single set of standards could be used, not only in domestic commerce but in foreign commerce, and that a system of arbitration could be brought about which we believe would be fair to our shippers and exporters as well as to the other side.

The English delegates to the World Cotton Conference were absolutely opposed to anything which would bring about a change in their own standards and were unwilling even to join with us in an effort to decide upon a set of standards which would be acceptable to everyone concerned, regardless of any preconceived notions that we might have, but as time has gone on we have—and when I say "we" I am referring to the American cotton trade rather than to the Government—succeeded in reducing the control that the Liverpool Cotton Association has over the grading of American cotton to some considerable extent. American cotton firms, to a considerable extent, are beginning to sell direct to spinners and persons throughout Europe, without reference to the Liverpool Cotton Association, and gradually the sphere of influence of the Liverpool Cotton Association is being cut down as to our spot-cotton trade.

There is in Germany a cotton association, at Bremen, which provides arbitration on standards of its own, and at the time of our visit to Germany they listened with a great deal of interest to our arguments, and assured us at that time that they considered them favorably, and it was quite likely that they would be willing to join with us in a movement to use a single set of standards which would be acceptable to the American cotton trade.

In Italy we found that the Italian merchants were not satisfied with the Liverpool arbitration because of its uncertainties, and they have expressed their approval of a movement to secure the transaction of business on American standards, and to provide an arbitration which would adequately care for the interests of the American shippers settling disputes as to cotton delivered.

Therefore we have felt that we are gradually moving toward the thing that we have tried to accomplish, and it would certainly be of great benefit to the American cotton trade if only one set of standards of classification of cotton were used in our export trade.

Senator DIAL. We could not cover that by law, could we? I agree with you it would be very desirable.

Mr. MORRILL. We could so far as our own interstate and foreign commerce is concerned; and there has been introduced in the House a bill to prohibit the use of, so far as grades are concerned, any grades other than those of the official cotton standards of the United States in interstate or foreign commerce. It is a move in the right direction, I think. I would hope that it could be accomplished without legislation. That was the endeavor we were making, and I think perhaps in the course of years the substitution of a single set of standards will be accomplished, but it will be much slower than it would be by means of legislation.

Senator DIAL. I agree with you.

Mr. MORRILL. The American cotton trade, all the way from the producer to the spinner, was quite adequately represented at the World's Cotton Conference. For example, there were such men as ex-Governor Manning, of South Carolina, and Mr. Cooper, of South Carolina, and people from all of the cotton States were there, and it appeared to be the unanimous sentiment of the American delegates that the idea of a single set of standards for classification of American cotton was a good one, and one that ought to be put across, and that if it could not be put across by agreement there should be legislation. I don't wish to appear to be advocating the legislation here,

but I am simply stating the sentiment of the American cotton trade as we got it in connection with this matter.

The present official cotton standards of the United States are established under the authority of the United States cotton futures act, which is the subject of some of these proposed amendments here. That work is carried on continuously as a part of our duties under the cotton futures act which, at the same time, also provides for the control over the kinds of contracts that are dealt with on future exchanges; and I might say, in that connection, that so long as the future exchanges are allowed to function it would be especially desirable to have American cotton traded in only on one set of standards, because the contracts of the Liverpool Cotton Association call for delivery of cotton according to Liverpool standards, whereas the contract on the two American exchanges—the large exchanges—calls for delivery according to American standards, and, of course, there is a slight difference in value between the two contracts on that account, and you can only compare the operations of the two exchanges by comparing the trend rather than by taking and comparing the exact values of the two forms of contract.

Senator RANSDELL. You speak of the two large cotton future exchanges. Are there any besides the New York and New Orleans where cotton is traded in?

Mr. MORRILL. Yes: the American Cotton and Grain Exchange, of New York, is a small institution established a few years ago, and is the one to which Senator Caraway was referring earlier this morning.

Senator RANSDELL. That is in addition to the big New York Cotton Exchange?

Mr. MORRILL. That is in addition to the big New York Cotton Exchange. The difference between the big New York Cotton Exchange and the American Cotton and Grain Exchange is that the big exchange has been established for half a century or more, and is a very large institution, and is the one which is, in addition to the New Orleans Cotton Exchange, used for the hedging and other purposes of the American cotton trade. The small cotton exchange, the American, uses a form of contract which provides for the delivery of 10 bales of cotton, whereas the large exchange contract calls for 100 bales of cotton, and, in addition, on the small exchange cotton may be delivered in fulfillment of contracts at any spot cotton market in the South on transfer of bill of lading, whereas on the New York Cotton Exchange contract delivery can only be made out of a warehouse in New York. Likewise, at New Orleans delivery can only be made out of a warehouse in New Orleans.

Senator RANSDELL. How extensive is the business of this American Cotton Exchange?

Mr. MORRILL. It has been increasing very rapidly since it began. The exact volume at the present time I am not acquainted with, but I have heard it stated that it is as high as 2,000,000 bales a month.

Senator RANSDELL. When did it begin business?

Mr. MORRILL. It began business—well, it was organized, if I recollect correctly, about four years ago, but its active business has not been going on more than two or three years.

Senator CARAWAY. If you will pardon me, it must be very much higher than that, because of the sworn testimony before Judge McAdoo that they dealt in 50,000,000 bales. That was the statement in the clipping that was lost off of my desk.

Mr. MORRILL. The exact information as to the volume of trading on all the exchanges is in the possession of the Treasury Department through the medium of the reports that they get, and I don't happen to be familiar with the recent volumes of business, but it has been a matter of pretty rapid development.

Senator CARAWAY. I notice—of course, this sworn testimony is all I know—that they had two ways of trading. If they crossed the pavement and bought and sold large numbers of bales it was understood to be a purely fictitious trade for the purpose of raiding the market up or down, as the case might be. Say that a man might go on the market and buy 1,000,000 bales of cotton, if he wanted to, and affect the day's trading. I clipped the articles from the publication in which it appeared from day to day as the examination was going on, in the court in New York, but those clippings have been lost.

Mr. MORRILL. I noticed, in looking over the testimony as recorded in this pamphlet of hearings of your committee, that quite a number of people from the cotton belt and some of the Senators have discussed this question quite thoroughly. I might mention that in addition, as you, of course, know, the subject has been brought up at almost every session of Congress since 1884, and that there have been a number of bills which have almost succeeded in passage until the United States cotton futures act was actually passed in 1914, and preceding the actual consideration of each bill there have been considerable hearings, and especially just preceding the passage of the original cotton futures act in 1914, and again just preceding the amendment to

the cotton futures act which was adopted in 1919. In between those dates the cotton futures act was reenacted in 1916, because of a court decision, and at that time the Committee on Agriculture of the House of Representatives reconsidered the whole subject. Then recently, when the futures trading act for the grain exchanges was passed, there were considerable hearings. In all of those hearings the question of whether there should be a limitation on speculation or whether the exchanges should be abolished was threshed out to a considerable extent, and it seems to me that I could hardly add anything to that discussion, because it was so thoroughly discussed both pro and con; and, moreover, if the question is to be looked at from the standpoint of an attempt to prohibit gambling on future exchanges, it involves a different question from the question of business economies, because the man in the cotton trade or the grain trade who desires to use the future exchange for legitimate hedging purposes does not concern himself about the ethics of the speculator who takes the other side of the contract.

The man in the legitimate cotton trade uses the future exchange for the purpose of insuring himself against fluctuations in price, and he looks upon the man who takes the other side of the contract as an insurer. So that in discussing the question of regulation of future exchanges, I would not want to enter into the question whether from a broad standpoint of policy the future exchanges ought to be abolished or not because of the gambling features. I think that is too broad a question of policy for me to attempt to discuss. But looking at it——

Senator CARAWAY. May I interrupt you before you start on that?

I want to make one other suggestion that I intended to make before. I should like to fix the time of its becoming effective, I would say now, August 1, 1923. I would not want any change in the law while existing contracts are existing.

Senator KEYES. As I understand you, Senator, you want your bill to read to go into effect when?

Senator CARAWAY. The 1st of August, 1923.

Senator DIAL. Mr. Chairman, may I ask Mr. Morrill a question?

Senator KEYES. Yes.

Senator DIAL. Mr. Morrill, what I am trying to do in my bill is not to restrict trading, not to put the exchange out of business, and I am not concerned very much about the buying and selling of contracts. What I am trying to do is to change the grading of cotton.

Now, my contention is that there is too much latitude there for the seller to deliver on the contract, and I want to make that workable, yet I want it sufficiently definite to be practical. Now, my desire would be instead of giving the seller the right to use any one of 10 grades, to limit that number. In other words, I contend that it is absolutely wrong for the Government to provide contracts requiring a man to sell a specific grade of cotton, contract to sell and deliver and sell a specific article, quality of article, and then the Government say that you need not deliver that grade, but you can deliver any other of 10 grades. My contention is that that is absolutely revolutionary. There is no other custom in the world similar to it. It tends constantly and absolutely to depress the value of an article. I can not conceive of any other plan, scheme, or arrangement whereby the value of an article could be depressed greater than by allowing a party to sell one quality then the Government to come in and say, "You need not carry out your contract, but you can deliver any other quality upon an adjusted price." Now, I have attempted to correct that evil, as I see it, and provided three classes, A, B, and C, with certain grades in each class as a basis for each class. My understanding is that all of the tenderable grades of cotton are good, spinable cotton, but I am also told there is no cotton mill in the world running on one class of goods that can use all of these 10 grades of cotton economically, and therefore the indefiniteness in the contract tends to depreciate the value of the commodity.

Now, I also understand that in exporting cotton, if an exporter received an order for one particular grade he was allowed to fill it with other grades, and, therefore, for all practical purposes to restrict it to one particular grade would be a nicety that would not be needed in the trade, as I understand it.

I would like to have your views on the arrangement which I have made there concerning those two matters, to hear what your views are on them, and whether you have any objection to them or any suggestions to make.

Senator KEYES. You have a copy, have you, Mr. Morrill, of S. 3146?

Mr. MORRILL. Yes. As I understand Senator Dial, it is his desire to preserve the future exchange for hedging purposes, but to change the form of contract that is used for that purpose so as to have a greater value as a trading medium.

Senator DIAL. Yes.

Mr. MORRILL. Therefore, the question of whether the exchanges should be abolished or not does not enter into the consideration from Senator Dial's standpoint.

Senator DIAL. Not at all. However, I will say, by way of just passing, I think it is a pretty serious proposition, but I am not concerned in that in this particular matter here now. I think it is absolutely wrong to allow them to say what they have and then the Government to come in and say, "You need not deliver what you sold."

Senator CARAWAY. May I interrupt you just there?

Mr. MORRILL. Yes.

Senator CARAWAY. There is a practice more or less prevalent and used very much more in the past than it is now of what was commonly called "kiting checks." A man not having any money in the bank gives a check on this bank, and then gave a check on some other bank, and swapped his credit around that way, hoping in the meantime to be able to redeem it. Every State, so far as I know, has made that a crime; and that is exactly selling what you have not. It is a pretense that somewhere you have a deposit when you have not. You sell it first to this man and then to another.

Senator DIAL. I think I agree with you, Senator Caraway, thoroughly, but I am not trying to correct that in my bill. I agree with you that perhaps to-day 50,000,000 bales of the next crop has been sold, whereas, as you said, nobody knows whether we will make a go of the crop or two-thirds of the crop or the whole crop, and, in my opinion, as long as the man who sells knows that he is not going to be called upon to deliver, it tends to depress the price tremendously.

Senator KEYES. Mr. Morrill, go ahead and give us your views on S. 3146, please. The main point is the three grades.

Mr. MORRILL. Under the present cotton futures act there are three forms of contract provided, one of which section 5 of the cotton futures act was designed primarily to provide, the hedging form of contract which the cotton trade has deemed necessary. In the beginning all of the 20 grades of the official cotton standards of the United States were deliverable on one contract, on the theory that being a hedging contract any cotton which a man had within the range of the official cotton standards should be deliverable, subject, of course, to the qualification that it be readily marketable, spinnable cotton.

That enactment of the cotton futures act brought about a great improvement in the condition of the futures market. It raised the status of the contract and made it more definitely valuable to both buyer and seller, and for the first year or two it functioned satisfactorily to the cotton trade as a hedge. But war conditions brought about a change, to some extent, in the use of cotton with special reference to the lower grades. They became less readily marketable, less general in their demand, and their deliverability on the contract operated as a drag on the price, and there was a time when these contracts sold as much as 5 cents below spot-cotton prices. In other words, the future contract tends to have no influence over spot-cotton prices and ceased to be useful for hedging purposes.

In March, 1919, Congress amended section 5 of the cotton futures act by striking out 10 grades and leaving 10 deliverable, which are all named in Senator Dial's amendment here, and for more than a year past the price of futures on the New York Cotton Exchange has been regularly above the average price of spot cotton in the South, with only an occasional exception, and then only a few points variation.

There are charts published in the publication of the Bureau of Markets known as "Weather, crops, and markets." The first chart under date of January 14, 1922, shows the price of futures on the New York Cotton Exchange, the price of futures on the New Orleans Cotton Exchange, and the average price of middling cotton in the 10 spot markets of the South on one chart, together with the Liverpool future prices on the same day.

Senator KEYES. Let me interrupt you, Mr. Morrill. Just in a general way, will you give the committee an idea how the prices vary, generally and roughly speaking, between New York and New Orleans exchanges?

Mr. MORRILL. New York is always higher than New Orleans under normal conditions. In other words, when the contract is functioning properly the New York Cotton Exchange contract sells at a higher price. In fact, properly it should sell at a price just enough higher to pay for transportation and delivery from New Orleans to New York, and whenever New York sells above that difference they ship cotton from New Orleans to New York to deliver on contract, and whenever New York gets too low with reference to New Orleans they engage in what they call straddling operations until the normal parity returns.

Senator DIAL. Now, Mr. Chairman, right there Mr. Morrill has put his finger right on one of my contentions. This, Mr. Morrill, is going to the heart of the whole proposition. You are correct about the price of the spots and the futures. My contention is that that proves absolutely nothing, because if it were not for the present law authorizing the seller to deliver any of the 10 qualities of cotton on the contract, the price

in the 10 spot markets would have been higher. That is too narrow. I am not criticizing you, but I am giving my contention. That is too narrow a construction of the proposition. That is only looking at one phase of the case. I am not concerned about the parties who buy and sell the contracts. I am concerned about the man who grows cotton. The low price in the 10 spot markets on the preceding day of the delivery of the cotton is because of the unjust, one-sided want of mutuality in the contract. That is the reason why the price of spot was so low that day or any other day. I hope to get that clear in the minds of the committee. There are very few points in my proposition—fundamental points. That is one of the main points. The reason spot cotton in the South to-day—of course, I am radically differing from Senator Ransdell, but I want to get that clear—the reason the price of the spot market to-day is so low is because of want of mutuality in this contract.

Senator RANSDELL. Now, Mr. Chairman, the Senator brings me in. I want to hear what the witnesses have got to say. I don't want to make my speech now, and I don't think Senator Dial ought to make his, but we want to hear these witnesses.

Senator KEYES. I think Senator Ransdell is right. We will have a chance to discuss these matters. We can not get witnesses here every day, and we are always here.

Senator DIAL. You are right, Mr. Chairman. I beg your pardon, but that was so opportune, you know.

Mr. MORRILL. There is no doubt that there is a close relationship between futures, and spot, and one would not get anywhere if he undertook to say that there was not, or that one did not have any effect on the other. But there gets to be a time when futures do not control spots and when spots do not control futures. It would depend upon the kind of contract you have on the future exchange whether spot may be said to be controlled by futures. We all know when a future contract permits delivery of cotton that is not readily marketable and not readily spinable the price is depressed, and no doubt that exercises an influence on spot cotton prices. But we also know, by observation, that every cotton man, and particularly Senator Smith has observed, that when the contract gets undesirable, as a matter of fact it begins to sell at a discount under spot cotton prices, not actually carrying the spot cotton price down with it.

Now, the thing that must be considered in connection with any attempt to amend section 5 of the cotton futures act is whether after it is amended it will perform its hedging function as well as this price function. In other words, if you disregard the hedging function you can formulate a contract which will sell way above the price of middling cotton, if you look at it wholly from the standpoint of the kind of contract that will bring a high price. For example, we will take the three classes that Senator Dial has in his bill here. These three classes are made up from combinations of the 10 grades now deliverable on the contract. Class A calls for 4 grades, and they are all high grades—middling fair, strictly good middling, good middling, and strict middling.

If the cotton exchange were to decide upon that contract as a basis for trading, you would have a contract that would sell possibly somewhere about the price of good middling cotton, assuming that that might be the average of that contract, and I hardly think it could be expected that middling cotton in the South could be brought up to the price of future contracts that represent good middling cotton. On the other hand, if they should adopt class B, which includes strict middling, middling, strict low middling, and good middling yellow tinged cotton, your contract may be and, quite likely will, sell somewhere around the average middling price, on account of the fact that strict low middling is deliverable on it.

Now, the third class provides for the delivery of strict low middling, low middling strict middling yellow tinged, and good middling yellow stained. It is perfectly obvious that that contract won't sell at a middling price, because middling is above any grade that is deliverable on that contract, and yet, on the other hand, when you know that middling is not deliverable on it, the middling price won't be brought down because of the fact that a contract which does not permit middling sells lower than the middling price in the South.

Senator SMITH. Let me ask you one question right there.

We have got in this bill proposing an amendment by Senator Dial three bases. What, in your opinion, would be the effect on the sale of cotton if the public understood that when they bought No. 1, cotton of a specific grade, as enumerated there, would be delivered on No. 1 or No. 2, the specific grade, and on No. 2, the highest, a specific grade? Would it, in your opinion, be possible, or is it probable that they would so discount No. 1 as to bring the relative value of all 10 within practically the same bounds that now obtain when all 10 grades are admissible on one contract?

Mr. MORRILL. I might premise my remark by saying that I do not pretend to be an economist or an expert; therefore I have to state the situation as I see it, and as it seems to me it might exist, looking at it from the standpoint of what the member of the cotton exchange would do with this bill when it was passed. There are three forms of contract. Under the present condition of affairs there is only one form of contract, and that forms the basis for all transactions. Therefore the buyers and sellers come into one pit, and expect to deal in one form of contract, and the whole volume of business is thrown onto that one form of contract, and you have a continuous market that the spot cotton trade argues for. Now, whether you could reduce the volume of business and still have enough business to provide a continuous market is a matter of guesswork to a certain extent. Now, this divides the present form of contract up into three.

Senator SMITH. Three contracts?

Mr. MORRILL. If they should trade in all three, then your volume of business there would be cut into fractions of the present volume, or there would be a tremendous increase in business in order to provide the same volume of business in any one of these three forms of contract.

My feeling is that they are not going to adopt all three of these forms of contract if this amendment is made. That is purely a feeling on my part. I think that quite likely they would not adopt class A. Whether they would adopt class B or class C is something that I can not foretell, but I am inclined to think that they would adopt only one of the three classes, and that would be either class C or class B and not class A.

Now, if they adopted class B it reduces the number of grades deliverable on the contract from the present 10 to 4, and they would be embraced within strict middling, middling, or strict low middling white grades, and the good middling yellow tinged, which is a pretty good class or quality of cotton, just about as near white as any of the present grades permits. That, of course, would be a more valuable contract from the standpoint of the buyer, it seems to me, because of the fact that he knows that his delivery will be restricted within those four grades; but from the standpoint of the seller it must be remembered that his hedge is restricted to these four grades; that if he has got cotton in any of the other grades of the cotton standards they are not hedged by this contract; and looking at it from the standpoint of the banker, who insists that the man who deals with him shall see that his cotton is sold on hedge, it can not be shown, in the case of low middling, or in the case of any of the other grades that are not covered by these four.

Senator RANSDELL. And in the average here, Mr. Morrill, would not the producer have more grades than those included in class B to sell?

Mr. MORRILL. Speaking of the aggregate producer, they have all the grades in greater or less volume, according to the year. If it is a good year the number of grades will be less; if it is a poor year it will be greater. I remember that I think possibly Senator Smith secured the passage of a resolution calling upon the Census Bureau at one time to get up for him some figures as to spinable cotton, and they took as a basis cotton which was tenderable on future contracts at that time, which includes the 10 grades that are all specified in these three classes here, and they at that time estimated that there was in storage in the warehouses of the country cotton that was untenderable on future contracts to the extent of 24 per cent of the total.

Senator RANSDELL. That is, it did not come within any of the 10 grades?

Mr. MORRILL. It did not come within any of the 10 grades; so that when we take off some of the 10 we add to the volume of untenderable cotton. Whether that is desirable——

Senator DIAL. You do not understand that I am trying to take off any?

Mr. MORRILL. I don't want you to misunderstand me, Senator. I am speaking from the standpoint of class B, for example, or any one of the three forms, assuming that the exchange will not adopt all three but will select one. Whichever grade they select, all other grades will immediately become untenderable on the future exchange. If they select class B, low middling cotton will not be tenderable, and that will add to the total of untenderable cotton, and low middling exists in quite considerable volume in a good many years in the South.

Senator SMITH. Just one question of Mr. Morrill.

The New York Cotton Exchange and, in a large measure, the New Orleans Cotton Exchange, is principally a hedging market. This amendment, one of the subjects, is predicated upon the idea that the exchange would also be a spot market. That would be your construction of it, that the party buying a contract is anticipating a delivery of that cotton, whereas under his hedge it is an insurance against the cotton; he then can go and buy his spots wherever he sees fit, or wherever he may find them.

Mr. MORRILL. Senator, I think you are quite right. There is a conflict of views constantly in all of these attempts to amend the cotton futures act. There is on the

one side the view that the future market ought to be transformed into a spot market, a place where a spinner can buy his cotton.

Senator DIAL. There is nothing inconsistent in combining the two?

Mr. MORRILL. The two are totally different things, Senator. The hedging market is not intended to be a substitute for a spot market. It is a supplement, an incident to a spot market. You would continue to have your spot market if you abolished both the New York and New Orleans Cotton Exchanges. On the other hand, you would not have hedging markets anywhere if you abolished those two exchanges, unless you used Liverpool.

Senator DIAL. I understand that, but if my amendment was enacted into law there would be nothing to prevent the purchaser going out and buying cotton wherever he wanted to, notwithstanding he had the contract, just like they do to-day.

Mr. MORRILL. That is true; your amendment will not in any way place any restriction on the spot markets, except to the extent that if your contract is less valuable for hedging purposes the trading in spot cotton will be carried on on a wider margin of profit to the dealer.

Senator SMITH. Well, that is very natural, but suppose that if I, in the purchase of my hedge, am purchasing that hedge for cotton I want, at a satisfactory price, I would just call on the exchange to deliver the cotton and never put any broker in the field to buy it. Why should I?

Mr. MORRILL. I would not attempt to argue for a minute that the question of whether a restriction upon the deliverability of cotton so as to bring it within narrower limits would be more valuable to the buyer. It certainly would be more valuable to the buyer, but would the hedging function remain? That is the question.

Senator RANSDELL. And would it be more valuable to the producer?

Mr. MORRILL. That is subject to this qualification always, that as a practical business proposition if the future exchange is to perform its functions, the range of deliverable cotton must be kept within the limits of readily marketable, spinnable cotton; but after you have determined upon what are the readily marketable, spinnable grades, any attempt to narrow it further lessens the value of the contract for hedging purposes, and lessens the ready ability of the farmer to dispose of his cotton at a satisfactory price, because the man who buys it from him is deprived of his ability to hedge to the extent that you place restrictions upon the deliverability.

Senator DIAL. Mr. Morrill, would not the purchaser always pay more for a product provided he knows what he is going to get?

Mr. MORRILL. He will. He will give more for the contract just to the extent that you make it a more valuable contract for him to buy. Restricting the deliverability no doubt makes that contract less valuable to the man who buys it.

Senator SMITH. But right there, Mr. Morrill, you are getting a confusion of the two ideas again.

Mr. MORRILL. Yes, sir.

Senator SMITH. Of course, if a man is going to buy a contract and expects the cotton to be delivered on that contract, from the party who purchases the contract, then, of course, he wants to know exactly what grade of cotton he is going to get; but if he is hedging and is going to buy his cotton under the protection of that hedge in the spot market, he does not concern himself, within reasonable limits—as you say, it is all spinnable cotton. By his hedge he is protected. If they attempt to deliver him unspinnable cotton at a fixed difference, like they used to do, he would be absolutely at the mercy of the party that sold him the contract, but, under the restriction to the 10 grades, he is restricted to good spinnable cotton, and he knows that if as a last resort he is compelled to take up his cotton on the contract, he not only is protected in the spinnable grades, but he is protected against a juggling of the prices, because the price must be as of the average of the spot markets on the six days prior to delivery.

Mr. MORRILL. The commercial differences govern.

Senator SMITH. The commercial differences.

Mr. MORRILL. The reason I referred to the proposition of readily marketable grades of cotton is because if for any reason the man who sold for hedging purposes has to deliver—not that he wants to deliver, but if he has to deliver—and the buyer therefore has to receive, the buyer will have something that he can dispose of readily and at its current market value. Of course, if there were deliverable to him some cotton that he could not dispose of readily, naturally the future contract would be depressed in price, just as it was before the present 10 grades were made the limit. The point of it is that for hedging purposes, as Senator Smith has been indicating, it is not contemplated that delivery is to be made on the future contract, except as a right or a privilege, looking at it from whichever standpoint you look at it, either buyer or seller. In other words, the right to deliver on the one hand and the right to receive on the other is simply a protection as an incident to the hedging function. The man

who has bought 100 bales of cotton from a group of farmers does not look upon the future market as a place to sell his actual cotton and deliver it to anybody. He looks upon that just as he would look upon an insurance company, to get that insurance company to protect him against loss while he is carrying on his ordinary business, which is selling that actual cotton to spinners or to exporters or to whoever will pay him prices satisfactory to him. Therefore, what he wants in the future market is one which travels on a constant relationship with spot prices, so that when he comes to close out his futures he has been protected against loss in the meantime; and that condition has existed throughout the whole of the year 1921 and January and February of this year.

The lines of the future and spot prices traveled right along together as anyone can see from looking at that chart, and even more markedly in the last two months. The lines run along almost at a fixed difference between futures and spots. When that condition of affairs exists the man in the spot cotton business feels that he has a proper hedging contract from the standpoint of protecting him against fluctuations.

Senator SMITH. As soon as this overburden or alleged overburden of lower grades had begun to disappear the two went back to normal?

Mr. MORRILL. Yes, sir.

Senator SMITH. That is, the future market and the spot market. It is natural to suppose that when there was an overflow of the very lowest grade tenderable the whole chain would be lowered somewhat on account of that being the most readily available and more readily deliverable; but since we have absorbed that I have noticed that the two have come nearly together again, and run along evenly.

Mr. MORRILL. Of course, I would not want to give the impression, in saying what I have, that I look upon the present contract as a perfect contract and one that will always function properly. I am merely saying that during the last year or fourteen months it has been functioning satisfactorily.

Senator SMITH. Let me ask you this question right here, because I may forget it:

Staples are now beginning to have quite a good deal to do with the grade as well as the color and foreign matter, and will there not have to be more attention paid to grades in the contract if we are to keep up with the progress of the business in these grades?

Mr. MORRILL. There ought always to have been more attention paid to staple of cotton than has been paid to it in the past. The length of staple constitutes a very important factor in the value of cotton, and it has been contended by some that the evolution in the production of cotton during the last few years has brought us to the point where cotton an inch in length of staple is a better basis for trading purposes than seven-eighths. That argument is being made to a considerable extent, and I have heard people in the cotton business advance the argument that cotton deliverable under the cotton-futures act ought probably to be raised to an inch, for the reason that they consider that an inch represents more nearly the average production than seven-eighths.

Of course, we do not have much actual data on length of staple, because the cotton business is not conducted in the same way that the grain business is, Senator. In other words, in the grain business we have organized inspection departments in every grain market in the country, and every bit of grain that comes into a grain market is graded and you know exactly how every bit of grain in the country that moves in interstate commerce is graded. You can get up figures at any time showing how many bushels of each grade go into each market. When it comes to the cotton market we haven't anything comparable to that. It is pure guesswork to say how many bales in each grade of length of staple there are in the country.

Senator SMITH. Another confusing thing is that you may take a sample of good middling and an expert would not tell the difference, so far as color is concerned, between seven-eighths of an inch or an inch or between seven-eighths and one and one-eighth, whereas there is a difference of six or seven dollars a bale in the value of the two. Classes are misleading.

Senator DIAL. Will you kindly tell the committee, briefly, if you please, the respective rights of the purchaser and seller in the present contract?

Mr. MORRILL. Under the present contract there are 10 grades deliverable, and for the purpose of trading the price is intended to represent the price of middling cotton.

Senator DIAL. The contract is made for middling?

Mr. MORRILL. No; the contract is not made for middling. It is made for 10 grades, with middling as a basis upon which all calculations are made, for the purpose of giving that contract price.

Senator SMITH. A standard of comparison?

Mr. MORRILL. Yes, for the purpose of giving that contract a price. The price is set to be for middling cotton, with allowances for grades below and premiums for grades above, according to what cotton is deliverable on the contract, and according

to what cotton is deliverable on the contract, and according to commercial differences on the six business days prior to the delivery on that contract. So that when we speak of section 5 contracts as calling for middling cotton, we do not really mean that. We merely mean that middling is the basis of the contract and that the contract is really a contract for 10 grades, any or all of which the seller can deliver to the buyer and the buyer be required to receive.

Senator DIAL. Has the buyer any preference?

Mr. MORRILL. The buyer has no election at all of the grades which he will receive. The seller exercises the option of determining what grades he will deliver. That is because the contract has always been looked at from the angle of the southern shipper as a contract to be used for a selling hedge with the idea that the southern shipper should be able to deliver the cotton that he has, not that he wants to, but that if he has got it and wants to be hedged he should be able to deliver whatever cotton he has, and the cotton business is so conducted that when a man is buying cotton from the farmers, he takes all the cotton the farmer has, as a rule, and takes all the grades, and while he may not at the time be able to determine exactly the price, according to what it would be if delivered on contract, and when I say "delivered on contract" I mean future contract.

Senator DIAL. It may be that an exporter has bought a thousand bales of cotton in each of the specific grades. He could not wait for maturity with any certainty of getting that kind.

Mr. MORRILL. The exporter would not buy cotton on the future market for the purpose of filling contracts for any particular grade.

Senator DIAL. Suppose he wanted a particular grade; then that would do him no good, would it?

Mr. MORRILL. What he would do then is this: If he had an order from abroad for a thousand bales of, we will say, strict middling cotton, and has not yet bought the actual spot cotton in the South, he will buy futures, not for the purpose of receiving any cotton on the futures, but for the purpose of securing a hedge until he gets the actual cotton to fulfill his contract from abroad.

Senator DIAL. There would not be anything wrong if he could buy a contract and then deliver it? Where would be the harm in that?

Mr. MORRILL. Of course, you get down then to the proposition of doing business on a spot basis.

Senator DIAL. I can not see anything immoral in doing it on a spot basis.

Mr. MORRILL. I am not trying to argue the morality of the question. I am trying to discuss merely the business aspects of it.

(Whereupon, at 12 o'clock noon, the committee adjourned subject to the call of the chairman.)

TO AMEND SECTION 5 OF THE COTTON FUTURES ACT AND TO PREVENT THE SALE OF COTTON AND GRAIN IN FUTURE MARKETS.

FRIDAY, JUNE 2, 1922.

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D. C.

The subcommittee met, pursuant to call, at 9.30 o'clock a. m., in the Senate Office Building, Senator Henry W. Keyes presiding.

Present: Senators Keyes (chairman) and Smith.

Senator KEYES. The committee is ready to proceed.

STATEMENT OF MR. CHESTER MORRILL, ASSISTANT TO THE SECRETARY, UNITED STATES DEPARTMENT OF AGRICULTURE.—Resumed.

Senator KEYES. Mr. Morrill, as I recall it, at our last meeting you did not have time to finish your testimony, and we would be very glad, indeed, to hear anything further you have to say in regard to the bills that are before the committee.

Mr. MORRILL. Mr. Chairman, I have looked over my testimony since then and I do not know that I have anything of real value to add to it. We had some little discussion, you will remember, just after the close of the hearing, and I don't know that I can add to what I said at that time.

Senator KEYES. May I interrupt you?

Mr. MORRILL. Yes, sir.

Senator KEYES. After the close of the hearing, as I remember, I had to leave, and what discussion took place after I left the room I know nothing about; but if there is anything that took place there that you feel ought to go into the record, I would like very much to have you put it in, because I did not hear what was said after we adjourned.

Mr. MORRILL. I was referring to the discussion before you left that did not go into the record.

Senator KEYES. Oh, yes.

Mr. MORRILL. I feel perhaps either you or Senator Smith would have some questions you want to ask that would bring out what you want me to discuss better than I could if I were to volunteer some statement. You will remember we were discussing three bills, the bill introduced by Senator Caraway, which had the practical effect of providing for the discontinuance of the future exchanges, as we understand it; the bill by Senator Shortridge to provide a new form of contract for Arizona Egyptian cotton, to which we have no general objection; and the bill by Senator Dial to substitute three classes of contracts for the present one class of contract covered by section 5 of the cotton futures act; those three classes being made up by taking the grades that are now deliverable under section 5 of the cotton futures act and placing certain ones in each of three classes.

Senator KEYES. As I understand it, Mr. Morrill, you have no objection to the so-called Shortridge bill, covering long staple cotton; that is, if we are to have cotton exchanges continue.

Mr. MORRILL. Yes. If in your opinion it is desirable to provide for an additional form of contract to take care of Arizona Egyptian cotton, we have no objection to this bill.

Senator SMITH. I have not noticed that bill particularly. Does that specify particularly the Arizona Egyptian cotton?

Mr. MORRILL. Yes, sir. It is for that purpose only. The official name is American Egyptian.

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There is one particular item in it about which the department has made a suggestion, and that is on page 3, in line 10, where it says $1\frac{7}{16}$-inch length of staple. The department believes that should be $1\frac{9}{32}$-inch length of staple. That suggestion was brought before the House Committee on Agriculture, and that committee agreed to report the bill out with an amendment making the change we suggested. We did it because we believed $1\frac{7}{16}$ is too short and would have the possible effect of depressing the price.

Senator SMITH. And misleading the public, because you would think you were getting the staple that the American Egyptian would necessarily carry witht it when perhaps you would slip in some other cotton.

Mr. MORRILL. We think $1\frac{9}{32}$ will take care of every legitimate interest and at the same time will be better protection to the public.

Senator KEYES. In regard to the Caraway bill, so called, what is your position?

Mr. MORRILL. The point that we make about that is that it is apparently designed, and we think it would have the effect, to close the future exchanges for the performance of the function of hedging as now conducted, and it therefore becomes simply a question of national legislative policy for Congress to decide whether it wants to close the future exchanges. I think Senator Caraway stated expressly that that was his purpose.

Senator KEYES. That is my understanding.

Now, we get down to the Dial bill.

Senator SMITH. I want to ask you, Mr. Morrill—as you recall, I am the originator of the present cotton futures act, also the originator as to limitations of grades deliverable. We have been working under that for a good little while. Now, to take the tenderable grades, divide them into three different contracts, and leave the trade to buy A, B, or C—what, in your opinion, is the effect upon the general trade?

Mr. MORRILL. My opinion would be that the trade would not do business on all three forms. Of course I am merely expressing an opinion, because I do not know what will happen until it happens, but the practical side of the situation, it seems to me, would result in the selection of one of those forms of contract, and I would think that they might select the lowest of the three, the one which permits low middling, strict low middling, and middling to be delivered, because of the fact that low middling and strict low middling particularly come within the average range of the bulk of the crop, and because it would allow them more latitude for delivering. Naturally, if they were to select one of the other classes, A or B, the possibility of delivery and also the amount of cotton that could be hedged would be reduced, and of course we have always, in any consideration of this question, the limitation of grade on contract and conflicts of interest, in a sense.

The buyers of future contracts who are not buying for hedging purposes would probably like very much to have the range of cotton greatly restricted. On the other hand, the southern shipper or merchant or other person who stands in a position of hedging against cotton which he may have to deliver, does not want the range of cotton restricted, because that narrows his ability to hedge himself. So that what we have to do, in our opinion, is to strike a safe middle ground; that is to say, follow the principle that all cotton deliverable on future contracts must be readily marketable and spinnable cotton.

Senator SMITH. You remember, Mr. Morrill, that the difficulty I had in passing my amendment to restrict the grades delivered was to exclude all cotton that was not generally merchantable, that the trade did not generally desire.

Mr. MORRILL. Yes.

Senator SMITH. And yet to include and not outlaw, but to include in that contract all cottons that were ordinarily on the platform throughout the country, tendered as good, dry, sound cotton.

Mr. MORRILL. Yes, sir.

Senator SMITH. Of course, varying in grades as the classification as to color, staple and foreign matter might indicate.

Mr. MORRILL. Yes, sir.

Senator SMITH. But all of it good spinnable cotton?

Mr. MORRILL. Yes, sir.

Senator SMITH. Now, the ordinary method of purchasing and selling on the platforms throughout the country is in all those grades.

Mr. MORRILL. Yes, sir.

Senator SMITH. The farmer comes up with a load of cotton that he has taken from under his shed and he may have two wagon loads comprising nine bales, and he may have one bale of each grade tenderable.

Mr. MORRILL. That is possible.

Senator SMITH. Yes; it is possible, and sometimes when the world is fluctuating it is probable. Now, anyone buying that cotton to hedge against it, would he not have to hedge in each class as he has to grade his cotton out?

Mr. MORRILL. That is precisely where the difficulty would be, that there is no one of those three forms of contract which would be an adequate hedge alone; and he would be in the difficulty there of having to hedge three times as much cotton as he wanted to hedge, or to not hedge at all.

Senator SMITH. He buys a thousand bales at a given platform, takes it around to the warehouse, and he wants to hedge against that purchase; would it not necessitate his grading all that cotton and setting each amount off into its separate classification in order that he might hedge?

Mr. MORRILL. Yes, sir. On a strictly hedging basis, he would have to know his grades, and he could only safely hedge those grades which were within any one of the three forms of contract that he selected.

Senator SMITH. Not only would he have to know the grades, but he would have to know how many of each grade he had in order to intelligently hedge against that grade.

Mr. MORRILL. Yes; that is true.

Senator SMITH. Under the operation of the present law all the cotton that is tenderable is more or less interchangeable in the mills. What I mean to say is that a mill taking strict low on its contract, low middling or strict middling, strict good middling, can combine them all and spin them together.

Mr. MORRILL. The bulk of the deliverable grades can be used by most mills, and even though it might be brought out that some particular mill could not use them all, yet we do know that there are so many mills that combined can use them all that there is no difficulty whatsoever about marketing all 10 grades.

Senator SMITH. There is one point, Mr. Morrill, that comes right to the crux of this legislation: The allegation has been made that the farmers of the South are losing millions each day because the seller of the contract has the right to deliver such a scale of grades that he depresses the market, because of the fear on the part of the purchaser that if he demands specific fulfillment of his contract he will be tendered a grade which will entail a loss upon him, because the tender of the grade is at the option of the seller, and he has the option in 10 grades. Under the present law, if I demand specific fulfillment and you fulfill my contract by delivery all in the lowest grade tenderable, to wit, low middling, you can not ask me more for that low middling cotton than a certain number of bona fide spot markets are paying for that cotton at a specified date under the law.

Mr. MORRILL. That is to say, the difference between the middling basis and the low middling price?

Senator SMITH. Yes.

Mr. MORRILL. And that must be the actual commercial difference in value in those markets.

Senator SMITH. And not the fixed difference.

Mr. MORRILL. That is right.

Senator SMITH. Cotton is quoted, let us say, 20 cents, basis New York, and I buy a contract from you and demand the cotton. You deliver me my contract, a thousand bales or 100 bales, in low middling. Now, the basis is 20. I buy upon the basis of middling 20. You deliver me two full grades—that is, we used to consider it two half grades—under, and you tell me that you tender me that at 19 cents a pound. I am dissatisfied. Under the law you and I have to ascertain what low middling was bringing in a certain specific number of bona fide spot markets on a given date under the law.

Mr. MORRILL. The seller has no option in that matter. He is compelled to accept a deduction from the future contract price of the number of points that constitute the difference between the middling cash price and the low middling cash price in 10 bona fide spot markets.

Senator SMITH. Mr. Morrill, do you see wherein it is possible for a broker on the New York exchange, or member of any cotton exchange, to take advantage, unfair advantage, of a purchaser of a contract as between any of the grades tenderable? What I mean is, how will he depress the market?

Mr. MORRILL. He can not depress his market by the grades that he delivers, for two reasons. In the first place, every bale of cotton that he delivers must

be classed and certified by a Government employee according to the official cotton standards of the United States, and that is an absolutely disinterested grading of that cotton. In the second place, he does not determine the grades; the contract determines the grades, and he can not deliver anything that is below what the contract calls for. For example, low middling (using your illustration)—if he offers cotton which is actually below low middling, it will not be certificated by the Government, and then, having delivered it, he must take the commercial discount off of the future price for that particular grade of cotton that he delivers, and of course under present conditions all of the 10 grades are readily marketable cotton, so that if it happened that the buyer was not in position to use that low middling cotton in his own mill, he can readily turn it over to somebody else at the same price difference that he receives it at.

Senator SMITH. Well, is it not also a fact that almost a nonappreciable, if I may use that term, negligible amount of cotton is actually handled in the settlement of hedges?

Mr. MORRILL. Compared with the total volume of transactions, it is very, very insignificant, because that is not the purpose of a hedging contract. It is not the purpose of a hedging contract to deliver or to receive cotton. A hedging contract is in the nature of insurance against price fluctuations in the price of spot cotton in which the person who is using the future contract for hedging purposes may be dealing. In other words the southern merchant, the exporter, the spinner, do not use the future exchange for the purpose of selling and buying the actual spot cotton. They use the ordinary channels of commerce involved in direct dealings between themselves and the persons with whom they want to do business for the purpose of disposing of their cotton or buying their cotton that they want, using the future exchange simply as a means of covering fluctuations in price between the time of purchase and sale of the spot cotton. The only time that we get into any particular trouble about the future contract with respect to the grades is when an abnormal condition arises, such as did exist during the war, when, because of the uses to which cotton was being put and the changes in market conditions and the cutting off of certain markets, certain grades become less marketable than at other times.

Senator SMITH. Also on account of the very unfortunate Government order.

Mr. MORRILL. I have that in mind. I have that very much in mind. The low middling has in the past been an uncertain grade in that respect.

Senator SMITH. Yes.

Mr. MORRILL. Conceivably it might in the future again become uncertain if we had a very big crop of low-grade cotton; low middling could become somewhat of a drag on the market or show its effect on future prices. Just at the present time and for more than a year past low middling has not been a drag on the contract. As a matter of fact, there is not a great deal of it, apparently, at this time.

Senator SMITH. Yes. I have not been keeping up with that. What are the differences now? What are the discounts and the premiums above?

Mr. MORRILL. Taking the average of the 10 grades, on May 20 the average price of middling in the 10 markets was 19.59; strict low middling was 58 points off—just a trifle over a half cent.

Senator SMITH. That is somewhat better than it was in 1919?

Mr. MORRILL. Yes, sir. Low middling was 133 points off, which is only 1⅓ cents; and even good ordinary is only 323 points off middling, or 3 cents. So that there has been a decided narrowing in the discounts on the lower grades since the war time.

Now, as to the proportion of strict low middling and low middling, while of course we have no figures on the stocks of cotton generally, because you know the situation as to ascertaining the grades, yet we do know the stocks of cotton in New York deliverable on future contracts, and on May 19 they had in stock in New York 146,000 bales of tenderable cotton.

Senator SMITH. That is, certificated cotton?

Mr. MORRILL. Certificated cotton. Of that 146,000 bales only about 38 000 bales were below middling, and of all of that cotton only 4,460 bales were low middling. So that you see that low middling at the present time is not a drug on the New York market particularly.

I might say in that connection that during the month of May just finished we have had the largest amount of cotton brought to us for classification that we have had at any time since the amendment of March 4, 1919. We had something over 120,000 bales classed during the month of May in New

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Mr. MORRILL. May I suggest this for your consideration, that the member of the spot cotton trade, such as an exporter, or a broker for a mill who may be buying on the future exchange for hedging purposes is not necessarily in the market at the same time that some southern shipper is in the market for the purpose of selling as a hedge, so that the speculator probably in most cases takes the other side of that hedge by the exporter or the spinner, and if the speculator were not there the exporter or the spinner might not be able readily to hedge himself in future markets on the buying side.

Senator SMITH. Yes; but leave aside that particular contingency, we are concerned with the effects of our market laws and rules upon the commodity in the hands of the producer. He is unorganized and he does not in any way personally affect the market. His resources are notoriously limited, and he is absolutely subject to whatever influences influence that market outside of himself. He has a commodity the amount of which for market purposes is pretty well known by the 1st of November, that neither increases nor diminishes except by consumption, as to diminishing, until the beginning of the coming in of the next crop, and yet we see fluctuations that would justify the presence of a new crop or the absence of the one that is there, giving rise to quite a bit of criticism, and justifiable criticism, that some influences are at work other than the law of supply and demand or the purchase and sale of the actual commodity. Those engaged in the actual buying and selling, as cotton men, distinguished from the producer, may be able to protect themselves in this up and down tendency of prices. The cumulative testimony would lead us to believe that they do, because they are still there doing business.

But it is notoriously true that the producers of cotton are universally without means and are always totally uncertain as to what each day is going to determine is the value of their cotton. If the rules and regulations of the cotton mrket were such that the purchase and sale of the commodity was predicated upon and determined practically by the law of supply and demand, as near as we may approximate it in human endeavor, there would be less grounds for criticism and perhaps less unfairness and less hardship. One would be better able to do business. I recognize what you say is true, that so far as hedging against purchase and sale is concerned, it might embarrass him for a while; but to leave the market at the mercy of unlimited sales at any given time, the purchasers of this tremendous avalanche of sales then sell, and may not intend to take up a single bale. They may be just as purely gambling as the man that is selling. They are throwing dice in the way of the prices on the cubes, but if the man that threw the dice had to have the value represented on the cube in actual stuff, or the option on it, he could reach his limit as quick as he got rid of the amount of stuff he had back of it, and he, perforce, would have to stop. The purchaser could not, certainly, go out and purchase under such regulations as that unless he was buying within the limit of supply, and I have been worried by that more than anything else that remains to be done in the regulation of this commodity.

Mr. MORRILL. It seems to me, following your line of thought, that you are thinking in your own mind whether a future exchange is a desirable thing, and not whether the sales of future contracts should be limited to persons who either have the actual cotton or have it in possibility, because you are discussing the effect of the speculation on the future exchanges, on the prices, first, of the future contracts themselves, and then by reflection on the price of spot cotton.

Senator SMITH. Will you just pardon me there? Let us get our terminology together, then we can understand each other better. I can speculate on spots just as readily and plunge just as violently as I can on a pure gamble, without a speck of cotton back of it. We must remember that within 60 days, practically speaking, a 12 months' supply is brought into existence. Somebody is going to speculate on that actual stuff for the next 12 months. So that the element of speculation is not eliminated. We might eliminate the pure, unadulterated gambling. Now, that is a distinction that I would like to make.

Mr. MORRILL. It, of course, depends upon what your definition is as between gambling and speculation. I have heard a good many definitions. I do not know that I have ever heard any two people exactly agree as to the difference between gambling and speculation. Some people think that perhaps you can distinguish between gambling and speculation by saying the person who has the actual possession of the commodity is simply speculating, and the person who has not is a gambler.

Senator SMITH. I think for all intents and purposes in considering the question before us we might take that terminology and that definition or distinction. Say I have a lot that I have actually bought but I do not intend to live on it, but am holding that lot for a rising market. I dismiss all tenants and all persons desiring to purchase it. People come who want to live on it and offer me a premium. "No. I own it. To-morrow or the day after to-morrow, I believe it is going up in price. I will hold it." Mr. Meadows, over there, comes to another man and says, "I have not got any lot but I will sell you one." To this prospective buyer he says, "I will sell you one." "You will sell me a lot?" "Yes; at half the price Smith is offering that one for." "When will you deliver it?" "Well, 12 months from now." He will sell that other man a lot, will guarantee delivery. He has a clause in his contract, though, that at the time of delivery if he has not got the lot he can pay the purchaser a premium. Now, it is quoted all around that the lots that Meadows has to sell are half the price of Smith's lot. What Smith has got there is the actual lot that he has put his money in, and Mr. Meadows has gone ahead and sold a number of lots that he did not have, but he put them on the market, and bang went the market. But if Mr. Meadows was under the law not allowed to sell a single lot until he went and bought one, that would be a gray horse of another color.

Mr. MORRILL. Taking your distinction, in which class would you put the exporter who contracts to deliver to an English mill six months from now when he has not any cotton in his possession or any contract with anyone to deliver him the cotton?

Senator SMITH. I would put him in the Meadows class.

Mr. MORRILL. Now, as a matter of fact, Mr. Meadows, is not that sort of business done by exporters right along, as part of the legitimate spot cotton business?

Mr. MEADOWS. Yes, sir.

Senator SMITH. That is what I know.

Mr. MORRILL. What is the difference between that and the case of the short seller on the future exchange?

Senator SMITH. It is only this. This man, the exporter, sells his cotton for future delivery. This broker actually commits himself to the American consumer. He immediately goes on the board and hedges himself. He has got to do it. If he did not do it he would not sell, but he goes there and hedges on the board. Now, so far as he is concerned, he is fully protected, whether it goes up or goes down. This man who took the chance is purely gambling. That man has not, because he has actually and potentially sold a bale the price of which is guaranteed, and the delivery of which is guaranteed, but if this man, the exchange man who takes the hedge, had to have the cotton, then he would have to go to my warehouse in South Carolina, or yours, and get it. He could not sit down there and say, "I will sweat that fellow out with warehouse charges and insurance charges and country damage—bleed him white. Here is 10,000 bales to be delivered next October in Liverpool, and I have not got a bale, and the law says I do not dare sell it until I have got it, therefore I must go down there and buy that cotton."

Mr. MORRILL. You have brought out something that I had in mind. What about that exporter? You said that exporter would not make that contract if he could not hedge on the future exchange. Is he going to be able to hedge on future exchange if the only one who can sell to him is the owner who has the actual cotton?

Senator SMITH. Yes, for this reason: Somebody is carrying the actual spots that are ultimately delivered. Who is carrying them? Now, we are getting to the very core of this matter. I am carrying them right now. They are actually buying and selling my cotton and I am paying warehouse charges and insurance charges for carrying it. They are actually committing my cotton.

Mr. MORRILL. If the seller of the cotton in that case must have the actual cotton somewhere——

Senator SMITH. Or the option on it.

Mr. MORRILL (continuing). Either the actual cotton or a contract which obligates the delivery of the specific cotton to him, then the exporter is not going to be able to buy it anywhere except from those people who sell on future exchanges. It will be taken out of the channels of spot trade, assuming that the future exchange continues to operate. I don't think it will under those condi-

tions. I don't think you will have any future exchange under those conditions. I think that you will eliminate the future exchange under that sort of illustration, and all the business will be done on a cash basis.

Senator SMITH. What about the stock exchange? It seems to be a pretty flourishing institution.

Mr. MORRILL. Yes; the stock exchange is, for all practical purposes, a cash market.

Senator SMITH. They do a pretty fine business.

Mr. MORRILL. Oh, yes; but they are dealing in stock.

Senator SMITH. But they are dealing in actual stocks.

Mr. MORRILL. Yes; but there is no hedging function involved in the stock exchange. They are not hedging anything, not any more than the cash grain market of the Chicago Board of Trade is a hedging market. That is where you pass title.

Senator SMITH. There is that distinction. I tell you, I am rather of the opinion—and I am willing to have this go into the record—that with the actual commodity here, just as much so as that railroad out yonder, or a steel plant, that actual cotton is there; and why we can not restrict the purchase and sale to the actual stuff is a fruitful field to debate about, and I am not satisfied yet.

Mr. MORRILL. Don't misunderstand me. I do not mean to say that Congress has not the power to regulate the operations of future exchanges on the basis of their effect upon interstate commerce in cotton, assuming that operations on the future exchanges either actually or potentially obstruct or interfere with that interstate trade or cause the imposition of a burden on that interstate trade; but the question, as I think, is not a question of power, but a question of national policy, as to whether you want to have a future exchange and how much you can limit the operations on a future exchange without eliminating the future exchange; and, of course, I would not want to have it implied from anything that I have said that I think that there is not speculation or gambling, if you choose, on the future exchanges.

I think it is apparent to anyone who observes these future exchanges that from time to time there are movements on the future exchanges that are not justified by world conditions in the spot-cotton trade; that are wholly based upon some business purpose of the immediate parties to the transactions, involving the idea of making a profit out of a local situation, perhaps; and, of course, the question of whether that sort of thing can be regulated without destroying the general function of the exchange is one of being able to segregate those transactions from other transactions. It is a little difficult to figure it out. Now, it is commonly said—and I think there must be a sound basis for it—that the strongest concerns in the cotton business would not be particularly injured by the discontinuance of the operation of the future exchanges; that they would simply change their mode of doing business; that instead of hedging themselves on future exchanges, as they do at present, they would simply exact larger margins of profit in their spot-cotton business, and protect themselves in that way; and that there would be a tendency to concentrate the handling of spot cotton in the stronger and larger firms who are able to carry a financial burden of considerable extent. In fact, I have heard men among the smaller dealers say that that is exactly what they would fear from stopping the operation of the future exchanges; that they would have to either go out of business or find themselves jobs with the larger firms that were stronger than they were; and then, too, there is the question of what would happen in time of stress. That can be argued on both sides. But we know that in the case of wool two years ago the bottom dropped out of the wool market overnight.

Up to a certain date buyers had been traveling around through the far West buying wool at around, if I recollect correctly, 50 cents a pound. The next day the buyers said, "We are not buying; we do not want wool at any price," and the price of wool dropped almost perpendicularly to somewhere in the neighborhood of 20 cents a pound, and it was a long time before that situation was cleared up and wool got back on a marketable basis. There was nowhere to sell wool except to the people in the actual wool trade, and they did not want to buy, for reasons of their own.

Senator KEYES. Now, Mr. Morrill, have you anything further to say on this so-called Dial bill, No. 3146, so far as it relates to the amendment of section 5?

Mr. MORRILL. No, sir; I don't believe that I have.

Senator KEYES. Are there any further questions?

Senator SMITH. No, sir.

Senator KEYES. Very well. Then we are very much obliged to you, Mr. Morrill.

Mr. Meadows, do you want to be heard?

Mr. MEADOWS. I do not care to go on the stand, unless you want me to. I just came up here with Mr. Morrill.

Senator KEYES. Senator Smith, do you know of any further witnesses to be heard on this bill?

Senator SMITH. No; I do not.

Senator KEYES. Then the hearing is closed.

(Whereupon at 10.30 o'clock a. m. the hearing was closed and the committee adjourned.)

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